

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

**FORM S-1
REGISTRATION STATEMENT**

*Under
The Securities Act of 1933*

QUALYS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

7372
(Primary Standard Industrial
Classification Code Number)

77-0534145
(I.R.S. Employer
Identification Number)

1600 Bridge Parkway
Redwood City, California 94065
(650) 801-6100
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Aggregate Offering Price (1)(2) | Amount of Registration Fee |
|-------------------------------------------------------|---------------------------------------|-------------------------------|
| Common Stock, par value \$0.001 per share | \$100,000,000 | \$11,460 |

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.

(2) Includes shares that the underwriters have the option to purchase to cover over-allotments, if any.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Preliminary Prospectus, subject to completion, dated June 8, 2012

Prospectus

Shares



COMMON STOCK

This is the initial public offering of common stock of Qualys, Inc. Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$ and \$ per share.

We expect to apply for the listing of our common stock on under the symbol "QLYS."

| | Per Share | Total |
|-------------------------------------------------|-----------|-------|
| Initial public offering price | \$ | \$ |
| Underwriting discounts and commissions | \$ | \$ |
| Proceeds to Qualys, Inc., before expenses | \$ | \$ |

We have granted the underwriters an option to purchase up to additional shares of common stock to cover over-allotments.

We are an "emerging growth company" as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements for future filings.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 13.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock on or about , 2012.

J.P. Morgan

Credit Suisse

RBC Capital Markets

Pacific Crest Securities

Baird

JMP Securities

Lazard Capital Markets

First Analysis Securities Corp.

Prospectus dated , 2012

QualysGuard Cloud Platform

A Unified View of Your Security & Compliance



Actionable Security Intelligence



Vulnerabilities



Malware



Compliance

QualysGuard Cloud Platform & Integrated Suite of IT Security & Compliance Solutions

- Identify Security Risks
- Protect Against Cyber Attacks
- Automate Compliance



- VM** Vulnerability Management
- PC** Policy Compliance
- PCI** PCI Compliance
- WAS** Web Application Scanning
- MDS** Malware Detection Service
- WAF*** Web Application Firewall
- QUINYS SECURE** SECURE Seal

* In Beta

500,000,000+
Scans and maps performed yearly

With

5,700+
Global customers

In

100+
Countries

With Only

300+
Employees

Global Customers



70% United States
25% EMEA
5% Asia

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You should rely only on the information contained in this prospectus and in any related free writing prospectus prepared by or on behalf of us. Neither we nor the underwriters have authorized anyone to provide you with information different from, or in addition to, that contained in this prospectus or any related free writing prospectus. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

Through and including _____, 2012 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

For investors outside the United States: neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. You are required to inform yourselves about and to observe any restrictions relating to this offering and the distribution of this prospectus.

PROSPECTUS SUMMARY

This summary highlights selected information that is presented in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless the context otherwise requires, the terms "Qualys," "the company," "we," "us," and "our" in this prospectus refer to Qualys, Inc. and its consolidated subsidiaries.

Overview

We are a pioneer and leading provider of cloud 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 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 our integrated suite of solutions delivered on our QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

We designed our QualysGuard 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, security assessments and compliance management for an organization's IT infrastructure and assets, whether they reside inside the organization, on their network perimeter 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, broader adoption and lower total cost of ownership than traditional on-premise enterprise software products. Our customers, ranging from some of the largest organizations to small businesses, are all served from our globally-distributed cloud platform, enabling us to rapidly deliver new solutions, enhancements and security updates.

Our QualysGuard Cloud Platform is currently used by over 5,700 organizations in more than 100 countries, including a majority of each of the Forbes Global 100 and Fortune 100. We offer our suite of solutions primarily through renewable annual subscriptions. Our revenues increased from \$57.4 million in 2009 to \$65.4 million in 2010 to \$76.2 million in 2011, and reached \$21.2 million for the three months ended March 31, 2012, compared to \$17.7 million in the three months ended March 31, 2011. We generated net income of \$0.9 million in 2009, \$0.4 million in 2010 and \$2.0 million in 2011, and a net loss of \$0.3 million for the three months ended March 31, 2012, compared to net income of \$1.0 million for the three months ended March 31, 2011.

Industry Overview

IT infrastructures are rapidly evolving to take advantage of new technology trends, such as increasing adoption of cloud computing, broader usage of virtualization and increasing workforce mobility, that enable organizations to enhance productivity, lower costs, increase operational flexibility and gain a competitive advantage. However, as IT infrastructures evolve into more complex combinations of on-premise products and cloud solutions delivered globally through a wide range of

devices and applications, these technologies also present new security and compliance challenges, which include:

- ÿ **Traditional IT security and compliance approaches struggle to effectively secure evolving IT environments.** As IT infrastructures evolve to include a mixture of on-premise, cloud and hybrid environments consisting of multiple networks and millions of devices, traditional on-premise enterprise software products may limit the ability of organizations to effectively protect their infrastructures from security threats and ensure compliance with internal policies and external regulations.
- ÿ **Security attacks targeting new layers of the IT infrastructure.** In addition to well-known vulnerabilities and methods of attack, which are referred to as “attack vectors,” the proliferation of networked devices, endpoints and web applications provides cyber attackers with a broader range of additional vulnerabilities to exploit across IT infrastructures.
- ÿ **Costly regulatory and compliance requirements.** As security breaches have increased, so have regulatory and compliance requirements. Organizations are faced with the increasing challenge and cost of managing policy compliance in addition to maintaining the security of their IT infrastructures.
- ÿ **Security concerns for organizations adopting cloud applications and services.** IT organizations are under increasing pressure to adopt next-generation cloud applications and services and are seeking solutions that provide comprehensive security across internal and cloud-based infrastructures.

Market Opportunity

The increasing complexity of IT infrastructures demands a new approach to IT security and compliance. Organizations are seeking efficient methods for discovering their IT assets, assessing the vulnerabilities of those assets and promptly remediating vulnerabilities. Reflecting this growing demand for next-generation solutions, International Data Corporation, or IDC, a research firm, forecasts that the vendor revenue tied to Cloud Security based solutions and for all types of Security & Vulnerability Management solutions will grow from a combined \$5.1 billion in 2011 to a combined \$9.3 billion in 2015, representing a CAGR of 15.9%. We believe there is considerable need for a comprehensive cloud security and compliance platform that can be easily and quickly deployed and can continuously collect and analyze large amounts of data from IT assets and web applications across globally-distributed IT environments.

Our Solution

We provide a cloud platform and integrated suite of solutions that enable organizations to simplify the process and reduce the cost of securing their IT assets and achieving compliance with internal policies and external regulations. Our platform and integrated suite of solutions:

- ÿ **Delivers a robust and integrated suite of security solutions through a cloud platform.** Our cloud architecture enables regular, automated scanning and analysis across large, global networks for an organization’s connected devices, endpoints and web applications from a single platform, and can be extended to third-party systems and applications within an organization’s ecosystem of customers and partners.
- ÿ **Provides visibility into security across a broad range of IT assets and attack vectors.** We enable our customers to substantially improve the security of their IT infrastructures by providing an automated, global and objective assessment of their security and compliance posture from the network to the application, including an organization’s

networked devices, endpoints and web applications, as well as web browsers with their corresponding plug-ins.

- ÿ **Enables more effective and lower-cost policy and regulatory compliance.** Our policy compliance solutions help address a broad range of compliance requirements related to internal policies and external regulations across a variety of industries, including the payment card industry. These solutions enable organizations to automate compliance-related workflows and provide documentation of compliance demanded by regulators, auditors and other governing bodies.
- ÿ **Enhances security of cloud computing.** We help our customers to securely extend their IT infrastructures to cloud environments. Our cloud platform identifies and evaluates physical and virtual IT assets within internal and third-party IT environments, providing our customers with visibility into their security and compliance postures across their extended infrastructures.

Our Competitive Strengths

Our vision is to transform the way organizations secure and protect their IT infrastructures and applications. We believe our competitive strengths include:

- ÿ **Trusted brand in cloud security.** We are a pioneer in cloud security, having introduced our vulnerability management solution as a service in 2000, and have since built a reputation as a trusted and objective provider of reliable and accurate vulnerability and compliance assessments.
- ÿ **Scalable and extensible cloud platform serving organizations of all sizes, across many industries globally.** Our highly-scalable cloud architecture and modular security and compliance solutions allow customers to access the functionality they need to help ensure the security of their IT infrastructures. Our cloud platform is designed to serve organizations ranging from small businesses to large enterprises with millions of unique IP-addressable networked devices and applications across globally-distributed IT infrastructures.
- ÿ **Longstanding focus on innovation in cloud security and compliance.** Since inception, we have introduced innovative cloud security and compliance solutions that allow our customers to protect their IT environments more effectively and at a lower cost. We have invested significantly to continuously improve our platform and believe that we are well positioned to address the challenges of the evolving IT security and compliance landscape.
- ÿ **Efficient customer acquisition and upsell model.** Our cloud delivery model allows potential and existing customers to easily and immediately access one or more of our solutions on a trial basis from any web browser. This model also allows our customers to subscribe to only the solutions they need initially and easily expand the breadth of their deployment and the number of solutions they use as their needs evolve.

Our Growth Strategy

We intend to leverage our innovation and extensive expertise to strengthen our leadership position as a trusted provider of cloud security and compliance solutions. The key elements of our growth strategy include:

- ÿ Continue to innovate and enhance our cloud platform and suite of solutions;
- ÿ Expand the use of our suite of solutions by our large and diverse customer base;

- ÿ Drive new customer growth by targeting key accounts and expanding our sales and marketing organization and network of channel partners;
- ÿ Broaden our global reach by expanding our relationships with key security consulting organizations, managed security service providers and value added resellers; and
- ÿ Selectively pursue technology acquisitions to bolster our capabilities and leadership position.

Risks Related to Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled “Risk Factors.” Some of these risks include:

- ÿ We have a limited history of profitability and may not achieve or maintain profitability in the future;
- ÿ 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;
- ÿ 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 basis, we may not be able to compete effectively and our ability to generate revenues would suffer;
- ÿ 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;
- ÿ Our quarterly operating results may vary from period to period, which could cause the trading price of our stock to decline;
- ÿ Adverse economic conditions or reduced IT spending may adversely impact our business;
- ÿ Our business depends substantially on retaining our current customers and attracting new customers, and any decline in our customer renewals or slowing in the growth of our customer base could harm our future operating results;
- ÿ Subscriptions to our QualysGuard Vulnerability Management solution generate most of our revenues, and if we are unable to continue to renew and grow subscriptions for this solution, our operating results would suffer;
- ÿ If we are unable to sell subscriptions to additional solutions, our future revenue growth may be harmed; and
- ÿ We face competition in our markets, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

If we are unable to adequately address these and other risks we face, our business, financial condition, operating results and prospects may be adversely affected.

Our Corporate Information

We were incorporated in Delaware on December 30, 1999. Our principal executive offices are located at 1600 Bridge Parkway, Redwood City, California 94065. 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 prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

Qualys, the Qualys logo and QualysGuard, and other trademarks and service marks of Qualys appearing in this prospectus are the property of Qualys. This prospectus 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 prospectus.

The Offering

| | |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Common stock offered by us | shares |
| Common stock to be outstanding after this offering | shares |
| Over-allotment option | We have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an additional shares from us. |
| Use of proceeds | <p>We estimate that the net proceeds to us from the sale of our common stock in this offering will be approximately \$ million (or approximately \$ million if the underwriters exercise their over-allotment option in full), based on an assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.</p> <p>We currently intend to use the net proceeds that we receive from this offering for capital expenditures, working capital and other general corporate purposes, which may include hiring additional personnel and investing in sales and marketing and research and development. In addition, we may use a portion of the proceeds that we receive from this offering to acquire or invest in complementary businesses, technologies or other assets. See the section titled "Use of Proceeds" for additional information.</p> |
| Proposed symbol | "QLYS" |

The number of shares of our common stock to be outstanding after this offering is based on 229,442,358 shares of common stock outstanding as of March 31, 2012, and excludes:

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of \$0.35 per share;
- 6,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Equity Incentive Plan, as amended, or our 2000 Plan; and
- shares of our common stock reserved for future issuance pursuant to our 2012 Equity Incentive Plan, or our 2012 Plan, which will become effective upon completion of this offering and which will contain provisions that automatically increase its share reserve each year.

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Except as otherwise indicated, all information in this prospectus assumes:

- the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 175,973,235 shares of common stock, which will occur upon the completion of this offering;
- a –for– split of our common stock, which will occur prior to the effectiveness of the registration statement of which this prospectus forms a part;
- the filing and effectiveness of our amended and restated certificate of incorporation in Delaware and the adoption of our amended and restated bylaws, each of which will occur upon the completion of this offering; and
- no exercise by the underwriters of their option to purchase up to an additional shares of common stock from us in this offering.

Summary Consolidated Financial and Other Data

The following tables summarize our historical consolidated financial and other data. We derived the summary consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary consolidated statements of operations data for the three months ended March 31, 2011 and 2012 and the consolidated balance sheet data as of March 31, 2012 from our unaudited interim consolidated financial statements included elsewhere in this prospectus. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which consist only of normal recurring adjustments, necessary for the fair presentation of our consolidated statements of operations data for the three months ended March 31, 2011 and 2012 and our consolidated balance sheet data as of March 31, 2012. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the three months ended March 31, 2012 are not necessarily indicative of operating results to be expected for the full year or any other period.

The following summary consolidated financial and other data should be read in conjunction with the sections titled "Selected Consolidated Financial and Other Data" and "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 prospectus.

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---------------------------------------------------------------------------------|---------------------------------------|----------|----------|------------------------------|-----------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (unaudited) | | | | |
| Consolidated Statements of Operations Data: | (in thousands, except per share data) | | | | |
| Revenues | \$57,425 | \$65,432 | \$76,212 | \$17,690 | \$21,191 |
| Cost of revenues ⁽¹⁾ | 10,692 | 11,204 | 13,247 | 2,873 | 4,160 |
| Gross profit | 46,733 | 54,228 | 62,965 | 14,817 | 17,031 |
| Operating expenses: | | | | | |
| Research and development ⁽¹⁾ | 13,377 | 15,780 | 19,633 | 4,764 | 5,101 |
| Sales and marketing ⁽¹⁾ | 24,782 | 29,056 | 31,526 | 7,002 | 9,246 |
| General and administrative ⁽¹⁾ | 7,455 | 8,183 | 8,900 | 2,214 | 2,814 |
| Total operating expenses | 45,614 | 53,019 | 60,059 | 13,980 | 17,161 |
| Income (loss) from operations | 1,119 | 1,209 | 2,906 | 837 | (130) |
| Other income (expense), net: | | | | | |
| Interest expense | (180) | (186) | (204) | (62) | (65) |
| Interest income | 10 | 3 | 14 | 1 | — |
| Other income (expense), net | 130 | (383) | (346) | 398 | (12) |
| Total other income (expense), net | (40) | (566) | (536) | 337 | (77) |
| Income (loss) before provision for income taxes | 1,079 | 643 | 2,370 | 1,174 | (207) |
| Provision for income taxes | 220 | 236 | 416 | 128 | 78 |
| Net income (loss) | \$ 859 | \$ 407 | \$ 1,954 | \$ 1,046 | \$ (285) |
| Net income (loss) attributable to common stockholders | \$ 171 | \$ 86 | \$ 436 | \$ 227 | \$ (285) |
| Net income (loss) per share attributable to common stockholders: ⁽²⁾ | | | | | |
| Basic | \$ 0.00 | \$ 0.00 | \$ 0.01 | \$ 0.00 | \$ (0.01) |
| Diluted | \$ 0.00 | \$ 0.00 | \$ 0.01 | \$ 0.00 | \$ (0.01) |

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| | Year Ended December 31, | | | Three Months Ended March 31, | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------|---------|------------------------------|----------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands, except per share data) | | | | |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders: ⁽²⁾ | | | | | |
| Basic | 43,995 | 47,057 | 50,529 | 48,820 | 52,601 |
| Diluted | 228,044 | 235,617 | 241,936 | 238,480 | 52,601 |
| Pro forma net income (loss) per share attributable to common stockholders (unaudited): ⁽²⁾ | | | | | |
| Basic | | | \$ 0.01 | | \$(0.00) |
| Diluted | | | \$ 0.01 | | \$(0.00) |
| Weighted-average shares used in computing pro forma net income (loss) per share attributable to common stockholders (unaudited): ⁽²⁾ | | | | | |
| Basic | | | 226,432 | | 228,574 |
| Diluted | | | 241,936 | | 228,574 |

⁽¹⁾ Includes stock-based compensation as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------------|-------------------------|----------|----------|------------------------------|--------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Cost of revenues | \$ 47 | \$ 80 | \$ 143 | \$ 18 | \$ 54 |
| Research and development | 315 | 359 | 499 | 113 | 142 |
| Sales and marketing | 284 | 467 | 578 | 118 | 199 |
| General and administrative | 474 | 964 | 927 | 228 | 275 |
| Total stock-based compensation | \$ 1,120 | \$ 1,870 | \$ 2,147 | \$ 477 | \$ 670 |

⁽²⁾ Please see Notes 1 and 11 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the calculations of our basic and diluted net income (loss) per share attributable to common stockholders and pro forma net income (loss) per share attributable to common stockholders.

| | March 31, 2012 | | |
|-----------------------------------------|----------------|-----------------------------------------------------------|--------------------------------------------|
| | Actual | Pro Forma ⁽¹⁾ (unaudited) (in thousands) | Pro Forma As Adjusted ⁽²⁾ |
| Consolidated Balance Sheet Data: | | | |
| Cash | \$ 30,646 | \$ 30,646 | \$ |
| Total assets | 71,318 | 71,318 | |
| Deferred revenues, current | 48,354 | 48,354 | |
| Deferred revenues, noncurrent | 5,745 | 5,745 | |
| Convertible preferred stock | 63,873 | — | |
| Total stockholders' equity (deficit) | (64,302) | (429) | |

⁽¹⁾ The pro forma consolidated balance sheet data above reflects the automatic conversion of all outstanding shares of our convertible preferred stock into 175,973,235 shares of common stock upon the completion of this offering.

(2) The pro forma as adjusted consolidated balance sheet data above reflects (i) the automatic conversion of all outstanding shares of our convertible preferred stock into 175,973,235 shares of common stock upon the completion of this offering, and (ii) the receipt of \$ _____ in net proceeds from the sale of shares of common stock by us in this offering at an assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase (decrease) per share in the assumed initial public offering price of \$ _____ per share would increase (decrease) each of cash, total assets and total stockholders' equity (deficit) by \$ _____ million, assuming that the number of shares offered by us, as set forth on the cover page of the prospectus, remains the same, and after deducting estimated underwriting discounts and commissions payable by us. An increase (decrease) of one million shares of common stock offered by us would increase (decrease) each of cash, total assets and total stockholders' equity (deficit) by \$ _____ million, assuming an initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions payable by us.

Other Financial Data (unaudited):

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies.

| | Four Quarters Ended | | | | |
|-----------------------|---------------------|----------|----------|-----------|----------|
| | December 31, | | | March 31, | |
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Four-Quarter Bookings | \$61,672 | \$69,977 | \$85,118 | \$72,226 | \$90,294 |

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|-----------------|-------------------------|----------------|----------|------------------------------|---------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | (in thousands) | | | |
| Adjusted EBITDA | \$6,162 | \$7,648 | \$10,426 | \$2,607 | \$2,290 |

Non-GAAP Financial Measures

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a financial measure that is not prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since a substantial majority of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers' original subscriptions, customer requests to modify subscription periods, or other factors.

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The following unaudited table presents the reconciliation of revenues to Four-Quarter Bookings for the four quarters ended December 31, 2009, 2010 and 2011, and March 31, 2011 and 2012.

| | Four Quarters Ended | | | | |
|--------------------------------------|---------------------|-----------------|-----------------|-----------------|-----------------|
| | December 31, | | | March 31, | |
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | (in thousands) | | |
| Revenues | \$57,425 | \$65,432 | \$76,212 | \$67,755 | \$79,713 |
| Deferred revenues, current | | | | | |
| Beginning of the Four-Quarter Period | 29,019 | 33,266 | 37,811 | 33,302 | 37,773 |
| Ending | 33,266 | 37,811 | 46,717 | 37,773 | 48,354 |
| Net change | 4,247 | 4,545 | 8,906 | 4,471 | 10,581 |
| Four-Quarter Bookings | <u>\$61,672</u> | <u>\$69,977</u> | <u>\$85,118</u> | <u>\$72,226</u> | <u>\$90,294</u> |

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 (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation.

The following unaudited table presents the reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2009, 2010 and 2011 and the three months ended March 31, 2011 and 2012.

| | Year Ended December 31, | | | Three Months Ended | |
|---------------------------------------------------------|-------------------------|----------------|-----------------|--------------------|----------------|
| | December 31, | | | March 31, | |
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | (in thousands) | | |
| Net income (loss) | \$ 859 | \$ 407 | \$ 1,954 | \$1,046 | \$ (285) |
| Other (income) expense, net | 40 | 566 | 536 | (337) | 77 |
| Provision for income taxes | 220 | 236 | 416 | 128 | 78 |
| Depreciation and amortization of property and equipment | 3,868 | 4,400 | 4,939 | 1,183 | 1,640 |
| Amortization of intangible assets | 55 | 169 | 434 | 110 | 110 |
| Stock-based compensation | 1,120 | 1,870 | 2,147 | 477 | 670 |
| Adjusted EBITDA | <u>\$6,162</u> | <u>\$7,648</u> | <u>\$10,426</u> | <u>\$2,607</u> | <u>\$2,290</u> |

Limitations of Four-Quarter Bookings and Adjusted EBITDA

Four-Quarter Bookings and Adjusted EBITDA, non-GAAP financial measures, have limitations as analytical tools, and should not be considered in isolation from or as a substitute for measures presented in accordance with U.S. GAAP. Some of these limitations are:

- ÿ Four-Quarter Bookings reflects the amount of revenues over a four-quarter period, plus the net change in the current portion of deferred revenues, while revenues are recognized ratably over the subscription periods;
- ÿ Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;
- ÿ Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;
- ÿ Adjusted EBITDA excludes depreciation and amortization of property and equipment and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- ÿ Other companies, including companies in our industry, may calculate Four-Quarter Bookings or Adjusted EBITDA differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, Four-Quarter Bookings and Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income (loss) and our financial results presented in accordance with U.S. GAAP.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this prospectus, including our consolidated financial statements and the related notes, before making a decision to invest in our common stock. The risks and uncertainties described below may not be the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition, results of operations and prospects could be harmed. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We have a limited history of profitability and may not achieve or maintain profitability in the future.

We have not been consistently profitable on a quarterly or annual basis. While we have experienced significant revenue growth over recent years, we may not be able to sustain or increase our growth or return to profitability in the future. Although we had net income in 2009, 2010, and 2011, we experienced a net loss of \$0.3 million for the three months ended March 31, 2012. The net loss was primarily due to increased sales and marketing activities in the first quarter of 2012 as we continued to expand our worldwide customer base as well as focus on the promotion of our new solutions. 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 return to or maintain profitability. In addition, as a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenues to achieve future profitability. We may incur losses in the future for a number of reasons, including without limitation, the other risks and uncertainties described in this prospectus. 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.

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 will depend to a significant extent on the willingness of organizations to increase their use of cloud solutions for their IT security and compliance. However, the market for cloud solutions for IT security and compliance is at an early stage relative to on-premise solutions, and as such, it is difficult to predict important market trends, including the potential growth, if any, of the market for cloud security and compliance solutions. 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 security and compliance solutions in addition to or as a replacement for such products.

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If the market for cloud solutions for IT security and compliance does not evolve in the way we anticipate or 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.

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 basis, we may not be able to compete effectively and our ability to generate revenues would suffer.

The IT security and compliance market is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards and regulatory mandates. 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 is relatively new, 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 interoperate 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 security and 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 is dependent 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.

Our quarterly operating results may vary from period to period, which could 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;
- changes in customer renewal rates for our solutions;
- the extent to which customers subscribe for additional solutions;
- seasonal buying patterns of our customers;
- the level of perceived threats to IT security;
- 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;
- price competition;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our solutions;
- changes in foreign currency exchange rates;
- general economic conditions, both domestically and in the foreign markets in which we sell our solutions; and
- future accounting pronouncements or changes in our accounting policies.

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Each factor above or discussed elsewhere in this prospectus 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 market price of our shares could fall and we could face costly lawsuits, including securities class action suits.

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. In general, worldwide economic conditions remain unstable, and these conditions make it difficult for our customers, prospective customers and us to forecast and plan future business activities accurately, and they could cause our customers or prospective customers to reevaluate their decision to purchase our solutions. Weak global economic conditions, or a reduction in IT spending even if economic conditions improve, could adversely impact our business, financial condition and results of operations in a number of ways, including longer sales cycles, lower prices for our solutions, reduced bookings and lower or no growth.

Our business depends substantially on retaining our current customers, and any decline in our customer renewals could harm our future operating results.

We offer our QualysGuard 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. We have limited historical data with respect to rates of customer subscription renewals, upgrades and expansions so we may not accurately predict future trends in customer renewals. Our customers' renewal rates may decline or fluctuate 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 results of operations may be harmed.

If we are unable to continue to attract new customers, our growth could be slower than we expect.

We believe that 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 business may be harmed.

Subscriptions to our QualysGuard Vulnerability Management solution generate most of our revenues, and if we are unable to continue to renew and grow subscriptions for this solution, our operating results would suffer.

We derived 96%, 92%, 90% and 88% of our revenues in 2009, 2010, 2011 and the three months ended March 31, 2012, respectively, from subscriptions to our QualysGuard Vulnerability Management solution, and we expect to continue to derive a significant majority of our revenues from sales of subscriptions to this solution for the foreseeable future. As a result, the market demand for our QualysGuard Vulnerability Management solution is critical to our continued success. Demand for this solution is affected by a number of factors beyond our control, including continued market acceptance of our solution for existing and new use cases, the timing of development and release of new products or services by our competitors, technological change, and growth or contraction in our market. Our inability to renew or increase subscriptions for this solution or a decline in price of this solution would harm our business and operating results more seriously than if we derived significant revenues from a variety of solutions.

If we are unable to sell subscriptions to additional solutions, our future revenue growth may be harmed.

We will need to increase the revenues that we derive from our current and future solutions other than QualysGuard Vulnerability Management for our business and revenues to grow as we expect. Revenues from our other solutions, including our Web Application Scanning, Policy Compliance, PCI Compliance, Malware Detection Service and Qualys SECURE Seal, have been relatively modest compared to revenues from our QualysGuard Vulnerability Management solution. Our future success depends in part on our ability to sell subscriptions to these additional solutions to existing and new customers. This may require more costly sales and marketing efforts and may not result in additional sales. If our efforts to sell subscriptions to additional solutions to existing and new customers are not successful, our business may suffer.

Our security and compliance solutions are primarily delivered out of two data centers, and any disruption of service at these facilities would interrupt or delay our ability to deliver our solutions to our customers.

We currently host substantially all of our solutions from two third-party data centers, located in the United States and Switzerland. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cybersecurity attacks, terrorist attacks, 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.

Our data centers are not currently redundant and we cannot rapidly move 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 intend to add additional data center facilities in 2013 to provide additional capacity for our cloud platform and enable disaster recovery. 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.

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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, cause customers to terminate their subscriptions and harm our renewal rates.

If we are unable to increase market awareness of our company and our new solutions, our revenues may not continue to grow, or may decline.

We have a limited operating history, particularly in certain markets and solution offerings, and we believe that we need to continue to develop market awareness in the IT security and compliance market. Market awareness of our capabilities and solutions is essential to our continued growth and success in all of our markets, particularly for the large enterprise, service provider and government markets. If our marketing programs are not successful in creating market awareness of our company and our full suite of solutions, our business, financial condition and results of operations may be adversely affected, and we may not be able to achieve our expected growth.

If our solutions fail to help our customers achieve and maintain compliance with regulations and industry standards, our business 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 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 would suffer.

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 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 of our solutions and may therefore adversely impact market acceptance of our solutions and

could result in negative publicity, loss of customers and sales and increased costs to remedy any problem.

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.

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

Our solutions are deployed in a wide variety of IT environments, including large-scale, complex infrastructures. If our customers are unable to implement our solutions successfully, customer perceptions of our platform 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. Any misuse of our solutions could result in customer dissatisfaction, impact the perceived reliability of our solutions, result in negative press coverage, negatively affect our reputation and harm our financial results.

As a security provider, our platform, website and internal systems may be subject to intentional disruption that could adversely impact our reputation and future sales.

Our operations involve providing IT security solutions to our customers, and as a result we could be a target of cyber attacks 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. If an actual or perceived breach of our network security occurs, it could adversely affect the market perception of our solutions, negatively affecting our reputation, and may expose us to the loss of information, litigation and possible liability. Such a security breach could also divert the efforts of our technical and management personnel. In addition, such a 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.

Undetected software errors or flaws in our cloud platform could harm our reputation or decrease market acceptance of our solutions, which would harm our operating results.

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 security and compliance reasons, any errors, defects, disruptions in service or other performance problems with our solutions may damage our customers' business and could hurt our reputation. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew, or other significant customer relations problems may arise. We may also be subject to liability claims for damages related to 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 and operating results.

Our solutions could be used to collect and store personal information of our customers' employees or customers, and therefore privacy 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 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, or HIPAA, the Gramm-Leach-Bliley Act, or GLB, 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, including the Data Protection Directive established in the European Union and the Federal Data Protection Act recently passed in Germany.

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 and privacy standards are still uncertain, it is possible that these laws or privacy standards may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solutions. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and privacy standards, could result in additional 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.

Disruptive technologies could gain wide adoption and supplant our cloud 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 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 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.

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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 public companies, such as Hewlett-Packard Company, International Business Machines Corporation, McAfee, Inc. (a subsidiary of Intel Corporation), and Symantec Corporation, as well as private security providers including BeyondTrust Software, Inc., Lumension Security, Inc., nCircle Network Security, Inc., Rapid7 LLC, Tenable Network Security, Inc. and Trustwave Holdings, Inc. 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 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; 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

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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.

Our business and operations have experienced rapid 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 rapid growth over the last several years. From 2009 to 2011, our revenues have grown from \$57.4 million to \$76.2 million, and our headcount increased from 205 employees at the beginning of 2009 to 300 employees at the end of 2011. 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, and in connection with our transition to a publicly-listed company, 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, any of which could result in a decline in our stock price.

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, the forecasts of market growth included in this prospectus should not be taken as indicative of our future growth.

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 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 markets where we do business. If we are unable to recruit and retain a sufficient number of productive sales

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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.

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.

The timing of sales of subscriptions for our solutions is difficult to forecast because of the length and unpredictability of our sales cycle, particularly with large enterprises. We sell subscriptions to our 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.

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 is significantly dependent 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 2009, 2010 and 2011 and the three months ended March 31, 2012, we derived approximately 30%, 33%, 38% and 41%, respectively, of our revenues from sales of 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.

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 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

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our customers could be impaired until equivalent services, if available, are identified, obtained and integrated, all of which could harm our business.

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.

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 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 does 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 results of operations.

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, or GPL, the GNU Lesser General Public License, or LGPL, 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 sources 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

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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.

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.

A significant portion of our customers and channel partners are located outside of the United States, which subjects us to a number of risks associated with conducting international operations.

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;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- changes in regulatory requirements;
- 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;

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- 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.

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, in 2011, we incurred approximately 20% of our expenses outside of the United States in foreign currencies, primarily Euros, principally with respect to salaries and related personnel expenses associated with our European operations. Additionally, in 2011, 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 Euros. The results of our operations may be adversely affected by foreign exchange fluctuations.

We use forward foreign exchange contracts to mitigate the effect of changes in foreign exchange rates on cash and accounts receivable balances denominated in certain foreign currencies. 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.

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.

We have several pending U.S. patent applications, and may file additional patent applications in the future. Additionally, as of March 31, 2012, we had exclusive licenses to four third-party patents. 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.

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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.

If we are required to collect 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. We have recorded sales tax liabilities of \$0.9 million on our consolidated balance sheet as of March 31, 2012 with respect to sales and use tax liabilities in various jurisdictions. 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 have 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.

We are dependent 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, President and Chief Executive Officer, and other key employees to execute on our business plan and to identify and pursue new

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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. 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, one of the 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.

For example, we are required under 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. 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.

Changes in laws or regulations related to the Internet may diminish the demand for our solutions and could have a negative impact on our business.

We deliver our solutions through the Internet. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting data privacy and the use of the Internet. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet or on commerce conducted via the Internet. These laws or charges could limit the viability of Internet-based solutions such as ours and reduce the demand for our solutions.

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, or FISMA, 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

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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.

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, and 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 a denial of certain export privileges.

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 or technologies. The environment for acquisitions in our industry is very competitive and acquisition candidate purchase prices will likely 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. 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. 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.

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.

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

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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 "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, goodwill and intangibles, accounting for income taxes and stock-based compensation.

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

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. 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 the way we conduct our business.

Because we expense commissions associated with sales of our solutions immediately upon receipt of a subscription order from a customer and generally recognize the revenues associated with such sale over the term of the agreement, our operating income in any period may not be indicative of our financial health and future performance.

We expense commissions paid to our sales personnel in the quarter in which the related order is received. In contrast, we generally recognize the revenues associated with a sale of our solutions ratably over the term of the subscription, which is typically one year. Although we believe increased sales is a positive indicator of the long-term health of our business, increased sales would increase our operating expenses and decrease net income in any particular period. Thus, we may report poor operating results due to higher sales commissions in a period in which we experience strong sales of our solutions. Alternatively, we may report better operating results due to the reduction of sales commissions in a period in which we experience a slowdown in sales. Therefore, you should not rely on our operating results during any one quarter as an indication of our financial health and future performance.

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.

Changes in our provision for income taxes or adverse outcomes resulting from examination of our income tax returns could adversely affect our results.

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 and the valuation of deferred tax assets and liabilities, including our ability to utilize our federal net operating losses, which were \$61.2 million as of December 31, 2011. Increases in our effective tax rate could harm our operating results.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade 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.

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 will be 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 applicable listing exchange. To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the Securities and Exchange Commission, or the SEC, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and

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annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will be required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate or that we are unable to produce timely or accurate financial statements, 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 applicable listing exchange.

We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, and are therefore not yet required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Upon becoming a public company, we will be required to comply with certain of these rules, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. We will remain an “emerging growth company” for up to five years, although, if the market value of our common stock that is held by non-affiliates exceeds \$700 million at any June 30 before that time, or in certain other circumstances, we would cease to be an “emerging growth company” as of the following December 31.

We will incur significantly increased costs and devote substantial management time as a result of operating as a public company, particularly after we are no longer an “emerging growth company.”

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we will be required to comply with certain of the requirements of the Sarbanes-Oxley Act and the Dodd Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and our stock exchange, including the establishment and maintenance of effective disclosure controls and procedures, internal control over financial reporting, and changes in corporate governance practices. Despite recent reform made possible by the JOBS Act, which allows us to take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not “emerging growth companies,” we expect that compliance with these requirements will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. In addition, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these public company requirements.

Under the JOBS Act, “emerging growth companies” can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of

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Section 404 of the Sarbanes-Oxley Act, when applicable to us. In that regard, we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors and our board committees or as executive officers.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Risks Related to Our Common Stock and this Offering

Market volatility may affect our stock price and the value of an investment in our common stock.

Following the completion of this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been previously traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of other 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.

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In addition, the stock market in general, and the stocks of technology companies 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 market 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.

An active trading market for our common stock may never develop or be sustained.

We intend to list our common stock on _____ under the symbol "QLYS." However, there can be no assurance that an active trading market for our common stock will develop on that exchange or elsewhere or, if developed, that any market will be sustained. Accordingly, we cannot provide any assurance regarding the liquidity of any trading market or the ability of an investor to sell shares of our common stock when desired or the prices that may be obtained for such shares.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price will be substantially higher than the pro forma as adjusted net tangible book value per share of our common stock immediately following this offering based on the total value of our tangible assets less our total liabilities. Therefore, a purchaser of our common stock in this offering will be immediately diluted by approximately \$ _____ per share, which is the difference between the assumed initial public offering price per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and the pro forma as adjusted net tangible book value per share following this offering. See the section titled "Dilution" for additional information. Furthermore, those who invest in our common stock in this offering will only own approximately _____ % of our outstanding shares of common stock after this offering even though they will have contributed _____ % of the total consideration received by us in connection with our sale of shares of our capital stock.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of our common stock.

Our management will have broad discretion over the use of our net proceeds from this offering, and investors will be relying on the judgment of our management regarding the application of these proceeds. We expect to use the net proceeds from this offering for general corporate purposes, including capital expenditures and working capital, which may in the future include investments in, or acquisitions of, businesses, services or technologies that management deems to likely be complementary. Because of the number and variability of factors that will determine our use of the proceeds from this offering, their ultimate use may vary substantially from their currently intended use. As such, our management could spend the proceeds in ways that do not necessarily improve our operating results or enhance the value of our common stock. See the section titled "Use of Proceeds" for additional information.

Concentration of ownership among our existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

Upon completion of this offering, our executive officers, directors and 5% or greater stockholders will beneficially own, in the aggregate, approximately _____ % of our outstanding common stock. As a

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result, such persons, acting together, will have the 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. These persons will also have the ability to control our management and business affairs. 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.

Upon completion of this offering, there will be _____ shares of our common stock outstanding. Of these, _____ shares are being sold in this offering (or _____ shares, if the underwriters exercise their option to purchase additional shares in full). Only _____ shares will be freely tradable immediately after this offering and the remaining outstanding shares may be sold upon expiration of lock-up agreements 180 days after the date of this prospectus (subject in some cases to volume limitations). In addition, as of March 31, 2012, we had outstanding options to purchase 63,735,536 shares of common stock that, if exercised, will result in these additional shares becoming available for sale upon expiration of the lock-up agreements. A large portion of these shares and options are held by a small number of persons and investment funds. Sales by these stockholders or optionholders of a substantial number of shares after this offering could significantly reduce the market price of our common stock. Moreover, certain holders of shares of common stock will have rights, subject to some conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may file for ourselves or other stockholders.

We also intend to register all common stock that we may issue under our 2000 Plan and our 2012 Plan. Effective upon the effectiveness of this registration statement, an aggregate of _____ shares of our common stock will be reserved for future issuance under our 2012 Plan, plus any shares which are forfeited, cancelled or terminated (other than by exercise) under our 2000 Plan. Once we register these shares, which we plan to do shortly after the completion of this offering, they can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock. See the section titled "Shares Eligible for Future Sale" for additional information.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If we do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

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.

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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.

Provisions in our restated certificate of incorporation and amended and restated bylaws that will become effective immediately prior to the completion of this offering 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 the board 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 % 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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, 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 prospectus 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 attain and sustain profitability;
- anticipated technology trends, such as the use of cloud solutions;
- our ability to adapt to changing market conditions;
- economic and financial conditions, including volatility in foreign exchange rates;
- our ability to attract and retain customers;
- our ability to diversify our sources of revenues;
- the effects of increased competition in our market;
- our ability to effectively manage our growth;
- our anticipated investments in sales and marketing and research and development;
- 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;
- our ability to successfully enter new markets and manage our international expansion; and
- other factors discussed in this prospectus in the sections titled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.”

We caution that the foregoing list may not contain all of the forward-looking statements made in this prospectus.

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

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The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this prospectus to reflect events or circumstances after the date of this prospectus or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and investors should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations and market position, market opportunity and market size, is based on information from various sources, including independent industry publications, including those generated by Gartner, Inc. and IDC, on assumptions that we have made that are based on those data and other similar sources and on our knowledge of the markets for our solutions. These data involve a number of assumptions and limitations, and investors are cautioned not to give undue weight to such estimates. Although neither we nor the underwriters have independently verified the accuracy or completeness of any third-party information, we believe the market position, market opportunity and market size information included in this prospectus is generally reliable, and the conclusions contained in the third-party information are reasonable. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section titled "Risk Factors" and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

The Gartner Report described herein represents data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc., and are not representations of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report are subject to change without notice.

The sources of the industry and market data contained in this prospectus are provided below:

- (1) IDC, *Worldwide Software as a Service 2011 – 2015 Forecast and 2010 Vendor Shares*, Robert P. Mahowald, August 2011.
- (2) IDC, *Worldwide Security and Vulnerability Management 2011 – 2015 Forecast and 2010 Vendor Shares*, Charles J. Kolodgy, November 2011.
- (3) IDC, *Worldwide Cloud Security 2011 – 2015 Forecast: A Comprehensive Look at the Cloud/Security Ecosystem*, Phil Hochmuth, Sally Hudson, John Grady, Christian A. Christiansen, Charles J. Kolodgy, December 2011.
- (4) Gartner, *Gartner Survey: PCI Compliance Activity Shifts Downstream as Aggressive Enforcement Continues*, Avivah Litan, June 2011.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of our common stock in this offering will be approximately \$ million, based on an assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds would be approximately \$ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase (decrease) the net proceeds to us of this offering by approximately \$ million, assuming the number of shares offered by us, as listed on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions payable by us. Similarly, each increase (decrease) of one million shares in the number of shares of common stock offered by us would increase (decrease) the net proceeds that we receive from this offering by approximately \$ million, assuming the assumed initial public offering price remains the same and after deducting estimated underwriting discounts and commissions payable by us.

The principal purposes of this offering are to obtain additional capital and increase our financial flexibility, improve our visibility in the marketplace, create a public market for our common stock and facilitate our future access to the public equity markets.

We currently intend to use the net proceeds that we receive from this offering for capital expenditures, working capital and other general corporate purposes, which may include hiring additional personnel and investing in sales and marketing and research and development. In addition, we expect to spend approximately \$20.0 million through December 31, 2013 for capital expenditures, primarily related to infrastructure to support the anticipated growth in our business. We may also use a portion of the net proceeds that we receive from this offering to acquire or invest in complementary businesses, technologies, or other assets. We have not entered into any agreements or commitments with respect to any acquisitions or investments at this time.

We cannot specify with certainty all of the particular uses of the net proceeds that we receive from this offering. Accordingly, we will have broad discretion in using these proceeds. Furthermore, the amount and timing of our actual expenditures will depend on numerous factors, including the cash used in or generated by our operations, the status of our development, the level of our sales and marketing activities, and our technology investments and acquisitions. Our management also has discretion over many of these factors. Pending the use of proceeds from this offering as described above, we plan to invest the net proceeds that we receive in this offering in short-term and intermediate-term interest-bearing obligations, investment-grade investments, certificates of deposit, or direct or guaranteed obligations of the U.S. government. We cannot predict whether the invested proceeds will yield a favorable return.

DIVIDEND POLICY

We have never declared or paid any cash dividend 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.

CAPITALIZATION

The following table sets forth our cash and our capitalization as of March 31, 2012 on:

- an actual basis;
- a pro forma basis, giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 175,973,235 shares of our common stock, which conversion will take place upon the completion of this offering as if such conversion had occurred on March 31, 2012; and
- a pro forma as adjusted basis, giving effect to the pro forma adjustments set forth above, the receipt of \$ _____ in net proceeds from the sale of _____ shares of common stock by us in this offering, based on an assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and the filing and effectiveness of our amended and restated certificate of incorporation in Delaware.

The pro forma as adjusted information set forth below is illustrative only and will be adjusted based on the actual initial public offering price and other final terms of this offering. This table should be read together with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes that are included elsewhere in this prospectus.

| | As of March 31, 2012 | | |
|-----------------------------------------------------------------------------------|----------------------|-----------------------------------------------------------------|--------------------------|
| | Actual | Pro Forma (in thousands, except share and per share data) | Pro Forma As Adjusted |
| Cash | \$ 30,646 | \$ 30,646 | \$ _____ |
| Capital lease obligations | \$ 3,645 | \$ 3,645 | \$ 3,645 |
| Convertible preferred stock, \$0.001 par value: | | | |
| 176,400,000 shares authorized, 175,973,235 shares issued and outstanding, actual; | | | |
| no shares authorized, issued and outstanding, pro forma or pro forma as adjusted | 63,873 | — | — |
| Stockholders' equity (deficit): | | | |
| Preferred stock, \$0.001 par value: | | | |
| no shares authorized, issued and outstanding, actual; _____ shares authorized, no | | | |
| shares issued and outstanding, pro forma or pro forma as adjusted | — | — | — |
| Common stock, \$0.001 par value: | | | |
| 299,900,000 shares authorized, 53,469,123 shares issued and outstanding, actual; | | | |
| 299,900,000 shares authorized, 229,442,358 shares issued and outstanding, pro | | | |
| forma; and _____ shares authorized, _____ shares issued and outstanding, | | | |
| pro forma as adjusted | 53 | 229 | |
| Additional paid-in capital | 13,754 | 77,451 | |
| Accumulated other comprehensive loss | (1,012) | (1,012) | |
| Accumulated deficit | (77,097) | (77,097) | |
| Total stockholders' equity (deficit) | (64,302) | (429) | |
| Total capitalization | \$ 3,216 | \$ 3,216 | \$ _____ |

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If the underwriters exercise their over-allotment option in full, pro forma as adjusted cash, additional paid-in capital, total stockholders' equity (deficit) and total capitalization as of March 31, 2012 would be \$ million, \$ million, \$ million and \$ million, respectively.

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase (decrease) our cash, additional paid-in capital, total stockholders' equity (deficit) and total capitalization by \$ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions payable by us.

The pro forma and pro forma as adjusted columns in the table above exclude the following:

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of \$0.35 per share;
- 6,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Plan; and
- shares of our common stock reserved for future issuance pursuant to our 2012 Plan, which will become effective upon completion of this offering, and which will contain provisions that automatically increase its share reserve each year.

DILUTION

An investment in our common stock in this offering will be immediately diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering. As of March 31, 2012, our pro forma net tangible book value was approximately \$(3.8) million, or \$(0.02) per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of March 31, 2012, after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 175,973,235 shares of common stock, which conversion will take effect upon the completion of this offering.

After giving effect to the sale by us of _____ shares of our common stock in this offering at our assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of March 31, 2012 would have been \$ _____ million, or \$ _____ per share. This represents an immediate increase in pro forma net tangible book value of \$ _____ per share to our existing stockholders and an immediate dilution of \$ _____ per share to investors purchasing shares of common stock in this offering at the assumed initial public offering price.

The following table illustrates this dilution:

| | |
|--------------------------------------------------------------------------------------------------------|----------|
| Assumed initial public offering price per share | \$ _____ |
| Pro forma net tangible book value per share as of March 31, 2012 | \$(0.02) |
| Increase in pro forma net tangible book value per share attributable to new investors in this offering | _____ |
| Pro forma as adjusted net tangible book value per share immediately after this offering | \$ _____ |
| Dilution in pro forma net tangible book value per share to new investors in this offering | \$ _____ |

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value per share to new investors by \$ _____, and would increase (decrease) dilution per share to new investors in this offering by \$ _____, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions payable by us. In addition, to the extent any outstanding options to purchase common stock or convertible preferred stock are exercised, new investors will experience further dilution.

If the underwriters exercise their over-allotment option in full, the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering would be \$ _____ per share, and the dilution in pro forma net tangible book value per share to new investors in this offering would be \$ _____ per share.

The following table presents on a pro forma as adjusted basis as of March 31, 2012, after giving effect to the conversion of all outstanding shares of convertible preferred stock into common immediately prior to the completion of this offering, the differences between the existing stockholders and the new investors purchasing shares of our common stock in this offering, with respect to the

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number of shares purchased from us, the total consideration paid or to be paid to us, which includes net proceeds received from the issuance of common stock and convertible preferred stock, cash received from the exercise of stock options and the average price per share paid or to be paid to us at an assumed offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

| | <u>Shares Purchased</u> | | <u>Total Consideration</u> | | <u>Average</u> |
|-----------------------|-------------------------|----------------|----------------------------|----------------|------------------|
| | <u>Number</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> | <u>Price Per</u> |
| | | % | \$ | % | \$ |
| Existing stockholders | | | | | |
| New public investors | | | | | |
| Total | | 100% | \$ | 100% | |

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus, would increase (decrease) the total consideration paid by new investors and total consideration paid by all stockholders by approximately \$ _____ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions payable by us. In addition, to the extent any outstanding options to purchase common stock are exercised, new investors will experience further dilution.

Except as otherwise indicated, the above discussion and tables assume no exercise of the underwriters' over-allotment option. If the underwriters exercise their over-allotment option in full, our existing stockholders would own _____ % and our new investors would own _____ % of the total number of shares of our common stock outstanding upon the completion of this offering.

The number of shares of our common stock to be outstanding after this offering is based on the 229,442,358 shares of common stock outstanding as of March 31, 2012, and excludes:

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of \$0.35 per share;
- 6,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Plan; and
- _____ shares of our common stock reserved for future issuance pursuant to our 2012 Plan, which will become effective upon completion of this offering, and which will contain provisions that automatically increase its share reserve each year.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

We derived the selected consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010 and 2011 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the selected consolidated statements of operations data for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 from our audited consolidated financial statements not included in this prospectus. We derived the selected consolidated statements of operations data for the three months ended March 31, 2011 and 2012 and the selected consolidated balance sheet data as of March 31, 2012 from our unaudited interim consolidated financial statements included elsewhere in this prospectus. The unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, which consist only of normal recurring adjustments, that are necessary for a fair presentation of our consolidated statements of operations data for the three months ended March 31, 2011 and 2012 and our consolidated balance sheet data as of March 31, 2012. Our historical results are not necessarily indicative of the results that may be expected in the future, and the results for the three months ended March 31, 2012 are not necessarily indicative of operating results to be expected for the full year or any other period.

The following selected consolidated financial and other data should be read in conjunction with the section titled "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 prospectus.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---------------------------------------------------------------------------------|---------------------------------------|------------------|----------------|----------------|-----------------|---------------------------------|------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands, except per share data) | | | | | | |
| Consolidated Statements of Operations Data: | | | | | | | |
| Revenues | \$ 39,492 | \$ 50,258 | \$ 57,425 | \$ 65,432 | \$ 76,212 | \$ 17,690 | \$ 21,191 |
| Cost of revenues ⁽¹⁾ | 7,474 | 9,540 | 10,692 | 11,204 | 13,247 | 2,873 | 4,160 |
| Gross profit | 32,018 | 40,718 | 46,733 | 54,228 | 62,965 | 14,817 | 17,031 |
| Operating expenses: | | | | | | | |
| Research and development ⁽¹⁾ | 8,739 | 11,705 | 13,377 | 15,780 | 19,633 | 4,764 | 5,101 |
| Sales and marketing ⁽¹⁾ | 19,818 | 22,830 | 24,782 | 29,056 | 31,526 | 7,002 | 9,246 |
| General and administrative ⁽¹⁾ | 4,998 | 6,670 | 7,455 | 8,183 | 8,900 | 2,214 | 2,814 |
| Total operating expenses | 33,555 | 41,205 | 45,614 | 53,019 | 60,059 | 13,980 | 17,161 |
| Income (loss) from operations | (1,537) | (487) | 1,119 | 1,209 | 2,906 | 837 | (130) |
| Other income (expense), net: | | | | | | | |
| Interest expense | (245) | (263) | (180) | (186) | (204) | (62) | (65) |
| Interest income | 200 | 85 | 10 | 3 | 14 | 1 | — |
| Other income (expense), net | 219 | (176) | 130 | (383) | (346) | 398 | (12) |
| Total other income (expense), net | 174 | (354) | (40) | (566) | (536) | 337 | (77) |
| Income (loss) before provision for income taxes | (1,363) | (841) | 1,079 | 643 | 2,370 | 1,174 | (207) |
| Provision for income taxes | 25 | 23 | 220 | 236 | 416 | 128 | 78 |
| Net income (loss) | <u>\$ (1,388)</u> | <u>\$ (864)</u> | <u>\$ 859</u> | <u>\$ 407</u> | <u>\$ 1,954</u> | <u>\$ 1,046</u> | <u>\$ (285)</u> |
| Net income (loss) attributable to common stockholders | <u>\$ (1,388)</u> | <u>\$ (864)</u> | <u>\$ 171</u> | <u>\$ 86</u> | <u>\$ 436</u> | <u>\$ 227</u> | <u>\$ (285)</u> |
| Net income (loss) per share attributable to common stockholders: ⁽²⁾ | | | | | | | |
| Basic | <u>\$ (0.04)</u> | <u>\$ (0.02)</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |
| Diluted | <u>\$ (0.04)</u> | <u>\$ (0.02)</u> | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |

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| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|--------|---------|---------|---------|------------------------------|-----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands, except per share data) | | | | | (unaudited) | |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders: ⁽²⁾ | | | | | | | |
| Basic | 36,880 | 41,439 | 43,995 | 47,057 | 50,529 | 48,820 | 52,601 |
| Diluted | 36,880 | 41,439 | 228,044 | 235,617 | 241,936 | 238,480 | 52,601 |
| Pro forma net income (loss) per share attributable to common stockholders (unaudited): ⁽²⁾ | | | | | | | |
| Basic | | | | | \$ 0.01 | | \$ (0.00) |
| Diluted | | | | | \$ 0.01 | | \$ (0.00) |
| Weighted-average shares used in computing pro forma net income (loss) per share attributable to common stockholders (unaudited): ⁽²⁾ | | | | | | | |
| Basic | | | | | 226,432 | | 228,574 |
| Diluted | | | | | 241,936 | | 228,574 |

(1) Includes stock-based compensation as follows:

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|--------------------------------|-------------------------|--------|----------|----------|----------|------------------------------|--------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | | (unaudited) | |
| Cost of revenues | \$ 23 | \$ 49 | \$ 47 | \$ 80 | \$ 143 | \$ 18 | \$ 54 |
| Research and development | 75 | 227 | 315 | 359 | 499 | 113 | 142 |
| Sales and marketing | 114 | 218 | 284 | 467 | 578 | 118 | 199 |
| General and administrative | 277 | 309 | 474 | 964 | 927 | 228 | 275 |
| Total stock-based compensation | \$ 489 | \$ 803 | \$ 1,120 | \$ 1,870 | \$ 2,147 | \$ 477 | \$ 670 |

(2) Please see Notes 1 and 11 to our consolidated financial statements included elsewhere in this prospectus for an explanation of the calculations of our basic and diluted income (loss) per share attributable to common stockholders and pro forma income (loss) per share attributable to common stockholders.

| | As of December 31, | | | | | As of |
|-----------------------------------------|--------------------|----------|----------|-----------|-----------|----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | March 31, 2012 |
| | (in thousands) | | | | | (unaudited) |
| Consolidated Balance Sheet Data: | | | | | | |
| Cash and cash equivalents | \$ 6,400 | \$ 7,655 | \$ 9,949 | \$ 15,010 | \$ 24,548 | \$ 30,646 |
| Total assets | 23,259 | 27,932 | 34,244 | 44,360 | 68,789 | 71,318 |
| Deferred revenues, current | 25,512 | 29,019 | 33,266 | 37,811 | 46,717 | 48,354 |
| Deferred revenues, noncurrent | 1,573 | 1,090 | 1,864 | 1,734 | 4,713 | 5,745 |
| Convertible preferred stock | 63,745 | 63,745 | 63,745 | 63,745 | 63,873 | 63,873 |
| Total stockholders' equity (deficit) | (74,574) | (74,310) | (72,740) | (69,841) | (64,864) | (64,302) |

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Other Financial Data (unaudited):

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies.

| | Four Quarters Ended | | | | | | |
|-----------------------|-------------------------|-----------|-----------|-----------|-----------|------------------------------|-----------|
| | December 31, | | | | | March 31, | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | | | |
| Four-Quarter Bookings | \$ 44,693 | \$ 53,765 | \$ 61,672 | \$ 69,977 | \$ 85,118 | \$ 72,226 | \$ 90,294 |
| | | | | | | | |
| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | | | |
| Adjusted EBITDA | \$ 1,503 | \$ 3,677 | \$ 6,162 | \$ 7,648 | \$ 10,426 | \$ 2,607 | \$ 2,290 |

Non-GAAP Financial Measures

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a non-GAAP financial measure, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since a substantial majority of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers' original subscriptions, customer requests to modify subscription periods, or other factors.

The following unaudited table presents the reconciliation of revenues to Four-Quarter Bookings for the four quarters ended December 31, 2007, 2008, 2009, 2010 and 2011, and March 31, 2011 and 2012.

| | Four Quarters Ended | | | | | | |
|--------------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | December 31, | | | | | March 31, | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | | | |
| Revenues | \$ 39,492 | \$ 50,258 | \$ 57,425 | \$ 65,432 | \$ 76,212 | \$ 67,755 | \$ 79,713 |
| Deferred revenues, current | | | | | | | |
| Beginning of the Four-Quarter Period | 20,311 | 25,512 | 29,019 | 33,266 | 37,811 | 33,302 | 37,773 |
| Ending | 25,512 | 29,019 | 33,266 | 37,811 | 46,717 | 37,773 | 48,354 |
| Net change | 5,201 | 3,507 | 4,247 | 4,545 | 8,906 | 4,471 | 10,581 |
| Four-Quarter Bookings | <u>\$ 44,693</u> | <u>\$ 53,765</u> | <u>\$ 61,672</u> | <u>\$ 69,977</u> | <u>\$ 85,118</u> | <u>\$ 72,226</u> | <u>\$ 90,294</u> |

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 (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation.

The following unaudited table presents the reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 and the three months ended March 31, 2011 and 2012.

| | Year Ended December 31, | | | | | Three Months Ended March 31, | |
|---------------------------------------------------------|-------------------------|----------------|----------------|----------------|-----------------|---------------------------------|-----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | | | |
| Net income (loss) | \$(1,388) | \$ (864) | \$ 859 | \$ 407 | \$ 1,954 | \$ 1,046 | \$ (285) |
| Other (income) expense, net | (174) | 354 | 40 | 566 | 536 | (337) | 77 |
| Provision for income taxes | 25 | 23 | 220 | 236 | 416 | 128 | 78 |
| Depreciation and amortization of property and equipment | 2,510 | 3,317 | 3,868 | 4,400 | 4,939 | 1,183 | 1,640 |
| Amortization of intangible assets | 41 | 44 | 55 | 169 | 434 | 110 | 110 |
| Stock-based compensation | 489 | 803 | 1,120 | 1,870 | 2,147 | 477 | 670 |
| Adjusted EBITDA | <u>\$ 1,503</u> | <u>\$3,677</u> | <u>\$6,162</u> | <u>\$7,648</u> | <u>\$10,426</u> | <u>\$ 2,607</u> | <u>\$ 2,290</u> |

Limitations of Four-Quarter Bookings and Adjusted EBITDA

Four-Quarter Bookings and Adjusted EBITDA, non-GAAP financial measures, have limitations as analytical tools, 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:

- Four-Quarter Bookings reflects the amount of revenues over a four-quarter period, plus the net change in the current portion of deferred revenues, while revenues are recognized ratably over the subscription periods;
- 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 and amortization of property and equipment and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and

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• Other companies, including companies in our industry, may calculate Four-Quarter Bookings or Adjusted EBITDA differently or not at all, which reduces their usefulness as a comparative measure.

Because of these limitations, Four-Quarter Bookings and Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income (loss) and our financial results presented in accordance with U.S. GAAP.

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 and Other Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. 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. Factors that could cause such differences include, but are not limited to, those described in the section titled "Risk Factors" and elsewhere in this prospectus.

Overview

We are a pioneer and leading provider of cloud 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 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. Our integrated suite of security and compliance solutions delivered on our QualysGuard Cloud Platform enable our customers to identify 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 QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

We were founded 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, QualysGuard Vulnerability Management, in 2000. This solution has provided the substantial majority of our revenues to date. As this solution gained acceptance, we introduced new solutions to help customers manage increasing IT security and compliance requirements. In 2006, we added our PCI Compliance solution, and in 2008, we added our Policy Compliance solution. In 2009, we broadened the scope of our cloud services by adding Web Application Scanning. We continued our expansion in 2010, launching Malware Detection Service and Qualys SECURE Seal for automated protection of websites.

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 our cloud solutions. We 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. Historically, at the end of each subscription period, customers have typically renewed their subscriptions.

We market and sell our solutions to enterprises, government entities and to small and medium size businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. As of March 31, 2012, we had over 5,700 customers in more than 100 countries, including a majority of each of the Forbes Global 100 and Fortune 100. In each of 2009, 2010 and 2011, no one customer or channel partner accounted for more than 5% of our revenues. In 2009, 2010 and 2011, approximately 69%, 67% and 67%, respectively, of our revenues were derived from customers in the United States. 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

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portion of sales through our channel partners, including managed service providers, value-added resellers and consulting firms in the United States and internationally.

We have had strong revenue growth over the past three years. Our revenues increased from \$57.4 million in 2009 to \$65.4 million in 2010 to \$76.2 million in 2011, and reached \$21.2 million for the three months ended March 31, 2012, compared to \$17.7 million in the three months ended March 31, 2011, representing period-over-period increases of \$8.0 million, \$10.8 million, and \$3.5 million, or 14%, 16% and 20%, respectively. We generated net income of \$0.9 million in 2009, \$0.4 million in 2010 and \$2.0 million in 2011. For the three months ended March 31, 2012, we had a net loss of \$0.3 million compared to net income of \$1.0 million for the three months ended March 31, 2011.

Key Factors Affecting Our Business

Expanding our Customer Base

Our growth depends on our ability to retain existing customers and attract new customers. We have organized our sales team to focus on adding new customers and on expanding relationships with existing customers. If we fail to attract new customers, or if existing customers fail to renew their subscriptions and purchase additional solutions, our revenues may grow more slowly than expected, if at all.

Expanding Adoption of our Solutions

We derived 96%, 92%, 90% and 88% of our revenues in 2009, 2010, 2011 and the three months ended March 31, 2012, respectively, from subscriptions to our QualysGuard Vulnerability Management solution, and we expect to continue to derive a significant majority of our revenues from sales of subscriptions to this solution for the foreseeable future. We will need to increase the revenues that we derive from our current and future solutions other than QualysGuard Vulnerability Management for our business and revenues to grow as we expect. Revenues from our other solutions, including our Web Application Scanning, Policy Compliance, PCI Compliance, Malware Detection Service and Qualys SECURE Seal, have been relatively modest compared to revenues from our QualysGuard Vulnerability Management solution. Our future success depends in part on our ability to sell subscriptions to these additional solutions to existing and new customers.

Investing in Growth

In order to grow our business we must continue to invest in our platform and solutions, people and infrastructure, which will likely result in higher operating expenses and capital expenditures. We plan to continue to invest in research and development to enhance our platform and solutions and develop new security and compliance solutions. Our revenue growth also depends on our ability to expand our sales force domestically and internationally. We expect to invest in hiring, training and retaining qualified personnel, and it may take a significant amount of time for new hires to become productive. We also plan to continue to expand our infrastructure to provide the capacity required to drive future revenue growth. We intend to add additional data center facilities in 2013, to provide additional capacity for our cloud platform and enable disaster recovery. These investments will increase our expenses, and if we are unable to generate additional revenues, our financial results may be harmed.

Key Metrics

In addition to measures of financial performance presented in our consolidated financial statements, we monitor the key metrics set forth below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies.

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a non-GAAP financial measure, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since a substantial majority of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers' original subscriptions, customer requests to modify subscription periods or other factors. See the section titled "Selected Consolidated Financial and Other Data—Non-GAAP Financial Measures" for a reconciliation of revenues to Four-Quarter Bookings.

| | Four Quarters Ended | | | | |
|------------------------------------------|---------------------|----------|----------|-----------|----------|
| | December 31, | | | March 31, | |
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Four-Quarter Bookings | \$61,672 | \$69,977 | \$85,118 | \$72,226 | \$90,294 |
| Percentage change from prior year period | 15% | 13% | 22% | 13% | 25% |

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 (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation. See the section titled "Selected Consolidated Financial and Other Data—Non-GAAP Financial Measures" for a reconciliation of net income (loss) to Adjusted EBITDA.

| | Year Ended December 31, | | | Three Months Ended | |
|------------------------|-------------------------|---------|----------|--------------------|----------|
| | December 31, | | | March 31, | |
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Adjusted EBITDA | \$6,162 | \$7,648 | \$10,426 | \$ 2,607 | \$ 2,290 |
| Percentage of revenues | 11% | 12% | 14% | 15% | 11% |

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. We generate the substantial majority of our revenues through the sale of subscriptions to our QualysGuard Vulnerability Management solution, and we have a growing number of customers who have purchased our additional solutions. Subscriptions to our solutions allow customers to access our cloud 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 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. Customers are required to return physical scanner appliances 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 sheet as accounts receivable or as cash when collected, and as deferred revenues until earned and recognized ratably over the subscription period. Accordingly, deferred revenues represents 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, 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 provided to certain customers as part of their subscriptions, expenses related to the use of third-party data centers, amortization of third-party technology licensing fees, fees paid to contractors who supplement or support our operations center personnel and overhead allocations. We expect to make significant capital investments to expand 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, amortization of intangibles related to prior acquisitions and overhead allocations. All research and development costs are expensed as incurred. We expect to continue to devote substantial resources to research and development in an effort to continuously improve our existing solutions as well as develop new solutions and expect that research and development expenses will increase in absolute dollars.

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 and overhead allocations. All costs are expensed as incurred, including sales commissions. Sales commissions are expensed in the quarter in which the related order is received and are paid in the month subsequent to the end of that quarter,

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which results in increased expenses prior to the recognition of related revenues. 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 and the rate at which they generate incremental revenues may affect our future operating results. We expect that sales and marketing expenses will increase 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, legal, human resources and internal information technology support teams as well as professional services fees and overhead allocations. We anticipate that we will incur additional expenses for personnel and for professional services, including auditing and legal services, insurance and other corporate governance-related expenses, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002, related to operating as a public company. We expect that general and administrative expenses will increase in absolute dollars, especially in the near term, as we continue to add personnel to support our growth and operate as a public company.

Other Income (Expense), Net

Our other income (expense), net consists primarily of interest expense associated with our capital leases and foreign exchange gains and losses, the majority of which result from fluctuations between the U.S. dollar and the Euro, British pound and Japanese yen.

Provision for Income Taxes

Our provision for income taxes consists primarily of corporate income taxes resulting from profits generated in foreign jurisdictions by wholly-owned subsidiaries, along with state income taxes payable in the United States.

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.

As a result of our current net operating loss position in the United States, we maintain a full valuation allowance on our U.S. federal and state deferred tax assets. Our cash tax expense is impacted by each jurisdiction's individual tax rates, laws on timing of recognition of income and deductions and availability of net operating losses and tax credits. Given the full valuation allowance and sensitivity of current cash taxes to local rules, our effective tax rate fluctuates significantly on an annual basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

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Results of Operations

The following tables set forth selected consolidated statements of operations data for each of the periods presented.

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|----------------------------------------------------|-------------------------|---------------|-----------------|------------------------------|-----------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | (unaudited) | |
| Consolidated Statements of Operations Data: | | | | | |
| Revenues | \$57,425 | \$65,432 | \$76,212 | \$17,690 | \$21,191 |
| Cost of revenues ⁽¹⁾ | 10,692 | 11,204 | 13,247 | 2,873 | 4,160 |
| Gross profit | 46,733 | 54,228 | 62,965 | 14,817 | 17,031 |
| Operating expenses: | | | | | |
| Research and development ⁽¹⁾ | 13,377 | 15,780 | 19,633 | 4,764 | 5,101 |
| Sales and marketing ⁽¹⁾ | 24,782 | 29,056 | 31,526 | 7,002 | 9,246 |
| General and administrative ⁽¹⁾ | 7,455 | 8,183 | 8,900 | 2,214 | 2,814 |
| Total operating expenses | 45,614 | 53,019 | 60,059 | 13,980 | 17,161 |
| Income (loss) from operations | 1,119 | 1,209 | 2,906 | 837 | (130) |
| Other income (expense), net | (40) | (566) | (536) | 337 | (77) |
| Income (loss) before provision for income taxes | 1,079 | 643 | 2,370 | 1,174 | (207) |
| Provision for income taxes | 220 | 236 | 416 | 128 | 78 |
| Net income (loss) | <u>\$ 859</u> | <u>\$ 407</u> | <u>\$ 1,954</u> | <u>\$ 1,046</u> | <u>\$ (285)</u> |

⁽¹⁾ Includes stock-based compensation as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------------|-------------------------|----------------|----------------|------------------------------|---------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | (unaudited) | |
| Cost of revenues | \$ 47 | \$ 80 | \$ 143 | \$ 18 | \$ 54 |
| Research and development | 315 | 359 | 499 | 113 | 142 |
| Sales and marketing | 284 | 467 | 578 | 118 | 199 |
| General and administrative | 474 | 964 | 927 | 228 | 275 |
| Total stock-based compensation | <u>\$1,120</u> | <u>\$1,870</u> | <u>\$2,147</u> | <u>\$ 477</u> | <u>\$ 670</u> |

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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, | | | Three Months Ended March 31, | |
|-------------------------------------------------|--------------------------|------|------|------------------------------|------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (percentage of revenues) | | | (unaudited) | |
| Revenues | 100% | 100% | 100% | 100% | 100% |
| Cost of revenues | 19 | 17 | 17 | 16 | 20 |
| Gross profit | 81 | 83 | 83 | 84 | 80 |
| Operating expenses: | | | | | |
| Research and development | 23 | 24 | 26 | 27 | 24 |
| Sales and marketing | 43 | 44 | 41 | 40 | 44 |
| General and administrative | 13 | 13 | 12 | 12 | 13 |
| Total operating expenses | 79 | 81 | 79 | 79 | 81 |
| Income (loss) from operations | 2 | 2 | 4 | 5 | (1) |
| Other income (expense), net | 0 | (1) | (1) | 2 | 0 |
| Income (loss) before provision for income taxes | 2 | 1 | 3 | 7 | (1) |
| Provision for income taxes | 1 | 0 | 0 | 1 | 0 |
| Net income (loss) | 1% | 1% | 3% | 6% | (1)% |

Comparison of Three Months Ended March 31, 2011 and 2012

Revenues

| | Three Months Ended March 31, | | Change | |
|----------|------------------------------------|----------|---------|-----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Revenues | \$17,690 | \$21,191 | \$3,501 | 20% |

Revenues increased \$3.5 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to new customer subscriptions entered into after March 31, 2011 and from an increase in the purchase of subscriptions for additional solutions from existing customers. Of the total increase, \$2.3 million was related to customers in the United States and the remaining \$1.2 million was from customers in foreign countries. This growth in revenues reflects increased demand for our solutions.

Cost of Revenues

| | Three Months Ended March 31, | | Change | |
|-------------------------|------------------------------------|----------|---------|-----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Cost of revenues | \$ 2,873 | \$ 4,160 | \$1,287 | 45% |
| Percentage of revenues | 16% | 20% | | |
| Gross profit percentage | 84% | 80% | | |

Cost of revenues increased \$1.3 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to \$0.5 million of higher depreciation expenses

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related to additional data center equipment, third-party software and physical scanner appliances deployed to customers, increased personnel expenses of \$0.4 million, principally driven by the addition of employees in our operations team and customer support team, and \$0.3 million of third-party software maintenance expense.

Research and Development Expenses

| | Three Months Ended March 31, | | Change | |
|--------------------------|------------------------------------|----------|--------|----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Research and development | \$ 4,764 | \$ 5,101 | \$ 337 | 7% |
| Percentage of revenues | 27% | 24% | | |

Research and development expenses increased \$0.3 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to an increase in personnel expenses of \$0.4 million, principally driven by the addition of employees as we continue to invest in enhancing our platform and developing new solutions.

Sales and Marketing Expenses

| | Three Months Ended March 31, | | Change | |
|------------------------|------------------------------------|----------|----------|-----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Sales and marketing | \$ 7,002 | \$ 9,246 | \$ 2,244 | 32% |
| Percentage of revenues | 40% | 44% | | |

Sales and marketing expenses increased \$2.2 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to an increase in personnel expenses of \$1.4 million, principally driven by the addition of employees as we continue to expand our domestic and international sales and marketing efforts, and higher sales commissions as a result of higher bookings, and increased travel and related expense of \$0.5 million principally driven by a higher level of conference and trade show activity in the three months ended March 31, 2012.

General and Administrative Expenses

| | Three Months Ended March 31, | | Change | |
|----------------------------|------------------------------------|----------|--------|-----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| General and administrative | \$ 2,214 | \$ 2,814 | \$ 600 | 27% |
| Percentage of revenues | 12% | 13% | | |

General and administrative expenses increased \$0.6 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to an increase in personnel expenses of \$0.3 million, principally driven by the addition of employees to support the growth of our business.

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Other Income (Expense), Net

| | Three Months Ended March 31, | | Change | |
|-----------------------------|------------------------------------|---------|----------|----|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Other income (expense), net | \$ 337 | \$ (77) | \$ (414) | NM |
| Percentage of revenues | 2% | 0% | | |

Other income (expense), net decreased \$0.4 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, primarily due to the implementation of our foreign exchange program at the end of 2011, which mitigated the impact of foreign exchange fluctuations in the Euro. The three months ended March 31, 2011 included \$0.4 million of foreign currency exchange gains, which were nominal in the three months ended March 31, 2012.

Provision for Income Taxes

| | Three Months Ended March 31, | | Change | |
|----------------------------|------------------------------------|-------|---------|-------|
| | 2011 | 2012 | \$ | % |
| | (unaudited) | | | |
| | (in thousands, except percentages) | | | |
| Provision for income taxes | \$ 128 | \$ 78 | \$ (50) | (39)% |
| Percentage of revenues | 1% | 0% | | |

Provision for income taxes decreased \$50,000 in the three months ended March 31, 2012 compared to the three months ended March 31, 2011, consistent with the decrease in income before provision for income taxes. For the three months ended March 31, 2012, a provision for income taxes was recorded primarily for taxes on foreign income, as we utilized net operating losses to offset federal income taxes in the United States.

Comparison of Years Ended December 31, 2010 and 2011

Revenues

| | Year Ended December 31, | | Change | |
|----------|------------------------------------|----------|----------|-----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Revenues | \$65,432 | \$76,212 | \$10,780 | 16% |

Revenues increased \$10.8 million in 2011 compared to 2010 primarily due to new customer subscriptions entered into in 2011 and from an increase in the purchase of subscriptions for additional solutions from existing customers. Of the total increase, \$7.4 million was related to customers in the United States and the remaining \$3.4 million was from customers in foreign countries. This growth in revenues reflects increased demand for our solutions.

Cost of Revenues

| | Year Ended December 31, | | Change | |
|-------------------------|------------------------------------|----------|---------|-----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Cost of revenues | \$11,204 | \$13,247 | \$2,043 | 18% |
| Percentage of revenues | 17% | 17% | | |
| Gross profit percentage | 83% | 83% | | |

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Cost of revenues increased \$2.0 million in 2011 compared to 2010, primarily due to \$1.4 million of increased personnel expenses, principally driven by the addition of employees in our operations team and customer support team, and \$0.6 million of higher depreciation expenses, principally driven by additional data center equipment and third-party software.

Research and Development Expenses

| | Year Ended December 31, | | Change | |
|--------------------------|------------------------------------|----------|---------|-----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Research and development | \$15,780 | \$19,633 | \$3,853 | 24% |
| Percentage of revenues | 24% | 26% | | |

Research and development expenses increased \$3.9 million in 2011 compared to 2010, primarily due to increased personnel expenses of \$3.0 million, principally driven by the addition of employees and higher performance-based compensation, as we continued to invest in enhancing our platform and solutions, and developing new solutions, increased travel expenses of \$0.3 million, and increased amortization expenses of \$0.3 million as a result of the addition of intangible assets acquired through our acquisition of Nemean Networks, LLC, or Nemean, in 2010.

Sales and Marketing Expenses

| | Year Ended December 31, | | Change | |
|------------------------|------------------------------------|----------|---------|----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Sales and marketing | \$29,056 | \$31,526 | \$2,470 | 9% |
| Percentage of revenues | 44% | 41% | | |

Sales and marketing expenses increased \$2.5 million in 2011 compared to 2010, primarily due to increased personnel expenses of \$1.5 million, principally driven by the addition of employees as we continued to expand our domestic and international sales and marketing efforts and higher sales commissions as a result of higher bookings, increased marketing program and event expenses of \$0.5 million, and higher travel and related expenses of \$0.3 million.

General and Administrative Expenses

| | Year Ended December 31, | | Change | |
|----------------------------|------------------------------------|----------|--------|----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| General and administrative | \$ 8,183 | \$ 8,900 | \$ 717 | 9% |
| Percentage of revenues | 13% | 12% | | |

General and administrative expenses increased \$0.7 million in 2011 compared to 2010, primarily due to increased personnel expenses of \$0.3 million, principally driven by higher performance-based compensation, and higher administrative expenses of \$0.3 million, primarily for additions of office equipment and third-party fees to support our growth.

[Table of Contents](#)**Other Income (Expense), Net**

| | Year Ended December 31, | | Change | |
|-----------------------------|------------------------------------|----------|--------|----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Other income (expense), net | \$ (566) | \$ (536) | \$ 30 | 5% |
| Percentage of revenues | 1% | 1% | | |

Other income (expense), net was consistent in 2010 and 2011.

Provision for Income Taxes

| | Year Ended December 31, | | Change | |
|----------------------------|------------------------------------|--------|--------|-----|
| | 2010 | 2011 | \$ | % |
| | (in thousands, except percentages) | | | |
| Provision for income taxes | \$ 236 | \$ 416 | \$ 180 | 76% |
| Percentage of revenues | 0% | 0% | | |

Provision for income taxes increased \$0.2 million in 2011 compared to 2010, primarily as a result of an increase in pre-tax income related to international operations and state taxes as we utilized net operating losses to offset federal income taxes in the United States.

Comparison of Years Ended December 31, 2009 and 2010**Revenues**

| | Year Ended December 31, | | Change | |
|----------|------------------------------------|----------|---------|-----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Revenues | \$57,425 | \$65,432 | \$8,007 | 14% |

Revenues increased \$8.0 million in 2010 compared to 2009, primarily due to new customer subscriptions entered into in 2010 and from an increase in subscriptions for additional solutions from existing customers. Of the increase, \$3.8 million was related to customers in the United States and the remaining \$4.2 million was from customers in foreign countries. This growth in revenues reflects increased demand for our solutions.

Cost of Revenues

| | Year Ended December 31, | | Change | |
|-------------------------|------------------------------------|----------|--------|----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Cost of revenues | \$10,692 | \$11,204 | \$ 512 | 5% |
| Percentage of revenues | 19% | 17% | | |
| Gross profit percentage | 81% | 83% | | |

Cost of revenues increased \$0.5 million in 2010 compared to 2009, primarily due to higher depreciation expenses principally driven by additional data center equipment, third-party software and physical scanner appliances provided to certain customers as part of their subscriptions.

[Table of Contents](#)**Research and Development Expenses**

| | Year Ended December 31, | | Change | |
|--------------------------|------------------------------------|----------|---------|-----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Research and development | \$13,377 | \$15,780 | \$2,403 | 18% |
| Percentage of revenues | 23% | 24% | | |

Research and development expenses increased \$2.4 million in 2010 compared to 2009, primarily due to an increase in personnel expenses of \$2.0 million, principally driven by the addition of employees as we continued to invest in enhancing our platform and solutions and developing new solutions, as well as the addition of several new employees from the acquisition of Nemean in August 2010.

Sales and Marketing Expenses

| | Year Ended December 31, | | Change | |
|------------------------|------------------------------------|----------|---------|-----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Sales and marketing | \$24,782 | \$29,056 | \$4,274 | 17% |
| Percentage of revenues | 43% | 44% | | |

Sales and marketing expenses increased \$4.3 million in 2010 compared to 2009, primarily due to increased personnel expenses of \$2.3 million, principally driven by the addition of employees as we continued to expand our domestic and international sales and marketing efforts, increased marketing program and event expenses of \$1.0 million and increased travel and related expenses of \$0.4 million.

General and Administrative Expenses

| | Year Ended December 31, | | Change | |
|----------------------------|------------------------------------|----------|--------|-----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| General and administrative | \$ 7,455 | \$ 8,183 | \$ 728 | 10% |
| Percentage of revenues | 13% | 13% | | |

General and administrative expenses increased \$0.7 million in 2010 compared to 2009, primarily due to an increase in personnel expenses of \$0.4 million, principally driven by higher stock-based compensation expense, and higher professional services fees of \$0.2 million.

Other Income (Expense), Net

| | Year Ended December 31, | | Change | |
|-----------------------------|------------------------------------|----------|---------|----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Other income (expense), net | \$ (40) | \$ (566) | \$(526) | NM |
| Percentage of revenues | 0% | 1% | | |

Other income (expense), net increased \$0.5 million in 2010 compared to 2009, primarily due to foreign currency exchange losses of \$0.4 million in 2010 compared to foreign exchange gains of \$0.1 million in 2009.

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Provision for income Taxes

| | Year Ended December 31, | | Change | |
|----------------------------|------------------------------------|--------|--------|----|
| | 2009 | 2010 | \$ | % |
| | (in thousands, except percentages) | | | |
| Provision for income taxes | \$ 220 | \$ 236 | \$ 16 | 7% |
| Percentage of revenues | 1% | 0% | | |

Provision for income taxes was relatively constant in 2009 and 2010 and related primarily to income taxes incurred in foreign jurisdictions as we utilized net operating losses to offset federal income taxes in the United States.

Quarterly Results of Operations Data

The following table sets forth our unaudited consolidated statements of operations data for each of the nine consecutive quarters through and including the period ended March 31, 2012, as well as the percentage of revenues for each line item shown. The unaudited quarterly consolidated statements of operations data set forth below have been prepared on the same basis as the audited consolidated financial statements included elsewhere in this prospectus and, in the opinion of management, reflect all necessary adjustments, which consist only of normal recurring adjustments, necessary for a fair presentation of such data. Our historical results are not necessarily indicative of the results for the full year or any other period. This data should be read together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

| | Three Months Ended | | | | | | | | |
|-------------------------------------------------|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Mar. 31, 2010 | Jun. 30, 2010 | Sep. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | Jun. 30, 2011 | Sep. 30, 2011 | Dec. 31, 2011 | Mar. 31, 2012 |
| | (unaudited) (in thousands) | | | | | | | | |
| Revenues | \$15,367 | \$16,120 | \$16,689 | \$17,256 | \$17,690 | \$18,495 | \$19,375 | \$20,652 | \$21,191 |
| Cost of revenues ⁽¹⁾ | 2,605 | 2,914 | 2,681 | 3,004 | 2,873 | 3,026 | 3,225 | 4,123 | 4,160 |
| Gross profit | 12,762 | 13,206 | 14,008 | 14,252 | 14,817 | 15,469 | 16,150 | 16,529 | 17,031 |
| Operating expenses: | | | | | | | | | |
| Research and development ⁽¹⁾ | 3,856 | 3,708 | 3,961 | 4,255 | 4,764 | 4,994 | 4,922 | 4,953 | 5,101 |
| Sales and marketing ⁽¹⁾ | 7,402 | 7,161 | 6,844 | 7,649 | 7,002 | 7,310 | 7,985 | 9,229 | 9,246 |
| General and administrative ⁽¹⁾ | 2,241 | 2,026 | 1,851 | 2,065 | 2,214 | 2,047 | 2,249 | 2,390 | 2,814 |
| Total operating expenses | 13,499 | 12,895 | 12,656 | 13,969 | 13,980 | 14,351 | 15,156 | 16,572 | 17,161 |
| Income (loss) from operations | (737) | 311 | 1,352 | 283 | 837 | 1,118 | 994 | (43) | (130) |
| Other income (expense), net | (370) | (452) | 432 | (176) | 337 | 71 | (461) | (483) | (77) |
| Income (loss) before provision for income taxes | (1,107) | (141) | 1,784 | 107 | 1,174 | 1,189 | 533 | (526) | (207) |
| Provision for income taxes | 62 | 56 | 76 | 42 | 128 | 82 | 81 | 125 | 78 |
| Net income (loss) | \$ (1,169) | \$ (197) | \$ 1,708 | \$ 65 | \$ 1,046 | \$ 1,107 | \$ 452 | \$ (651) | \$ (285) |

⁽¹⁾ Includes stock-based compensation as follows:

| | | | | | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cost of revenues | \$ 9 | \$ 19 | \$ 25 | \$ 27 | \$ 18 | \$ 34 | \$ 44 | \$ 47 | \$ 54 |
| Research and development | 83 | 91 | 85 | 100 | 113 | 109 | 118 | 159 | 142 |
| Sales and marketing | 64 | 120 | 124 | 159 | 118 | 116 | 163 | 181 | 199 |
| General and administrative | 220 | 244 | 255 | 245 | 228 | 226 | 225 | 248 | 275 |
| Total stock-based compensation | \$376 | \$474 | \$489 | \$531 | \$477 | \$485 | \$550 | \$635 | \$670 |

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| | Three Months Ended | | | | | | | | |
|-------------------------------------------------|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Mar. 31, 2010 | Jun. 30, 2010 | Sep. 30, 2010 | Dec. 31, 2010 | Mar. 31, 2011 | Jun. 30, 2011 | Sep. 30, 2011 | Dec. 31, 2011 | Mar. 31, 2012 |
| | (unaudited) | | | | | | | | |
| | (percentage of revenues) | | | | | | | | |
| Revenues | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Cost of revenues | 17 | 18 | 16 | 17 | 16 | 16 | 17 | 20 | 20 |
| Gross profit | 83 | 82 | 84 | 83 | 84 | 84 | 83 | 80 | 80 |
| Operating expenses: | | | | | | | | | |
| Research and development | 25 | 23 | 24 | 25 | 27 | 27 | 25 | 24 | 24 |
| Sales and marketing | 48 | 44 | 41 | 44 | 40 | 40 | 41 | 45 | 44 |
| General and administrative | 15 | 13 | 11 | 12 | 12 | 11 | 12 | 11 | 13 |
| Total operating expenses | 88 | 80 | 76 | 81 | 79 | 78 | 78 | 80 | 81 |
| Income (loss) from operations | (5) | 2 | 8 | 2 | 5 | 6 | 5 | 0 | (1) |
| Other income (expense), net | (2) | (3) | 3 | (1) | 2 | 0 | (2) | (2) | 0 |
| Income (loss) before provision for income taxes | (7) | (1) | 11 | 1 | 7 | 6 | 3 | (2) | (1) |
| Provision for income taxes | 1 | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 0 |
| Net income (loss) | (8)% | (1)% | 10% | 0% | 6% | 6% | 2% | (3)% | (1)% |

Cost of Revenues

Cost of revenues generally does not vary directly with changes in revenues, as costs of revenues primarily include on-going and regular costs of personnel, data center and depreciation expense. Our quarterly trend generally reflects increases in cost of revenues as we add personnel and data center infrastructure and as depreciation expense increases due to purchases of computer hardware to support the expansion of our data centers. The increase in the three months ended June 30, 2010 was primarily due to the write-off of obsolete computer equipment and increased consulting work on our third-party data centers. The increase in the three months ended December 31, 2010 was primarily due to increased costs incurred to improve our data centers. The increase in the three months ended December 31, 2011 was primarily due to significant capital expenditures, which resulted in higher depreciation expense.

Operating Expenses

Research and Development

Research and development expenses generally increased in absolute dollars quarter over quarter as we continued to invest in developing new solutions, and continued to enhance our platform and existing solutions. We also continued to expand our research and development teams outside of the United States. The increases in the three months ended March 31, 2011 and June 30, 2011 were primarily due to increased personnel expenses during these quarters as a result of higher performance-based compensation.

Sales and Marketing

Sales and marketing expenses generally fluctuate from quarter to quarter due to the timing of sales, marketing events and related travel expenses. The significant increase in sales and marketing expenses in the three months ended December 31, 2011 was primarily due to increased sales compensation related to higher bookings in that quarter.

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General and Administrative

General and administrative expenses generally fluctuate from quarter to quarter due to the timing of certain professional services, such as accounting and legal, that are not incurred ratably throughout the year. In the three months ended March 31, 2010, there were higher than usual professional services fees associated with the implementation of changes in accounting for income taxes. Additionally, the increase in the three months ended March 31, 2012 was primarily due to higher professional services fees and the addition of employees.

We incurred net losses in the three months ended December 31, 2011 and March 31, 2012, primarily due to increased investments in our data centers and infrastructure, which resulted in higher depreciation expense and third-party license fees. Sales and marketing expenses also increased during these periods, primarily due to higher sales compensation for sales personnel and significant marketing events. We also incurred significant foreign currency exchange losses in the three months ended December 31, 2011.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through the proceeds from the issuance of our preferred stock, including \$23.2 million invested by Philippe F. Courtot, our Chairman, President and Chief Executive Officer, and cash flows from operations. At March 31, 2012, our principal source of liquidity was cash of \$30.6 million. We have experienced positive cash flows from operations during each of 2009, 2010 and 2011 and the three months ended March 31, 2011 and 2012. We believe our existing cash and cash from operations will be sufficient to fund our operations for at least the next twelve months. We expect to spend approximately \$20.0 million through December 31, 2013 for capital expenditures, primarily related to infrastructure to support the anticipated growth in our business. 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 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. To the extent that existing cash, cash from operations and net proceeds from this offering are insufficient to fund our future activities, we may need to raise additional funding through debt and equity financing. Additional funds may not be available on favorable terms or at all.

Cash Flows

The following summary of cash flows for the periods indicated has been derived from our consolidated financial statements included elsewhere in this prospectus:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---------------------------------------|----------------------------|-----------------|-----------------|---------------------------------|-----------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| | (unaudited) | | | | |
| Cash provided by operating activities | \$ 7,471 | \$ 9,896 | \$17,190 | \$ 8,268 | \$ 9,628 |
| Cash used in investing activities | (3,889) | (4,261) | (7,499) | (830) | (2,927) |
| Cash used in financing activities | (1,224) | (547) | (10) | (113) | (578) |
| Effect of exchange rates on cash | (64) | (27) | (143) | 24 | (25) |
| Net increase in cash | <u>\$ 2,294</u> | <u>\$ 5,061</u> | <u>\$ 9,538</u> | <u>\$ 7,349</u> | <u>\$ 6,098</u> |

Cash Flows from Operating Activities

In the three months ended March 31, 2012, operating activities provided \$9.6 million in cash related to a decrease of accounts receivable of \$5.2 million due to lower bookings in the first quarter

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compared to the fourth quarter of the prior year and an increase of \$2.7 million in deferred revenues, attributable to increased collections from customers and an increase in subscriptions exceeding one year. These working capital increases were partially offset by a net loss of \$0.3 million, adjusted by non-cash items such as depreciation and amortization of \$1.7 million and stock-based compensation of \$0.7 million.

In the three months ended March 31, 2011, operating activities provided \$8.3 million in cash as a result of net income of \$1.0 million, adjusted by non-cash items including depreciation and amortization of \$1.3 million and stock-based compensation of \$0.5 million. Working capital sources of cash were also related to a decrease of accounts receivable of \$3.8 million due to lower bookings in the first quarter compared to the fourth quarter of the prior year, an increase of \$0.7 million in deferred revenues, attributable to the increased collections from customers and a \$0.8 million increase in accounts payable and accrued liabilities primarily related to increased headcount and operations.

In 2011, operating activities provided \$17.2 million in cash as a result of net income of \$2.0 million, adjusted by non-cash items, including depreciation and amortization of \$5.4 million and stock-based compensation of \$2.1 million. Working capital sources of cash were related to an increase of \$11.9 million in deferred revenues, attributable to increased collections from customers and subscriptions exceeding one year, a \$4.1 million increase in accounts payable and accrued liabilities primarily related to increased headcount and operations, and a \$1.7 million increase in other non-current liabilities related to obligations for multi-year maintenance and support agreements for third-party licensed technology. These sources of cash were partially offset by an increase of \$6.7 million in accounts receivable due to the overall growth of our business as new bookings outpaced collections of existing receivables and a \$3.8 million increase in prepaid expenses and other assets related to long-term maintenance contracts on third-party licensed technology.

In 2010, operating activities provided \$9.9 million in cash as a result of net income of \$0.4 million, adjusted by non-cash items, including depreciation and amortization of \$4.6 million and stock-based compensation of \$1.9 million. Working capital sources of cash were related to an increase of \$4.4 million in deferred revenues, attributable to increased collections from customers. These sources of cash were partially offset by an increase of \$1.2 million in accounts receivable due to the overall growth of our business.

In 2009, operating activities provided \$7.5 million in cash as a result of net income of \$0.9 million, adjusted by non-cash items, including depreciation and amortization of \$3.9 million and stock-based compensation of \$1.1 million. Working capital sources of cash were related to an increase of \$5.0 million in deferred revenues, which was attributable to increased collections from customers. These sources of cash were partially offset by an increase of \$3.1 million in accounts receivable due to the overall growth of our business and \$0.5 million decrease in accounts payable and accrued liabilities due to timing of payments.

Cash Flows from Investing Activities

In the three months ended March 31, 2011 and 2012, we used \$0.8 million and \$2.9 million, respectively, of cash for capital expenditures, including computer hardware and software for our data centers to support our growth and development, and to purchase physical scanner appliances provided to certain customers as part of their subscriptions.

In 2009, 2010 and 2011, we used \$3.9 million, \$1.5 million and \$7.5 million, respectively, of cash for capital expenditures, including computer hardware and software for our data centers to support our growth and development, to purchase physical scanner appliances provided to certain customers as part of their subscriptions and to purchase computer hardware provided to customers as part of their subscriptions. Additionally, in 2010, we used \$2.8 million of cash for the acquisition of Nemean.

Cash Flows from Financing Activities

In the three months ended March 31, 2012, cash used in financing activities of \$0.6 million was primarily attributable to repayments on our capital lease obligations of \$0.7 million partially offset by \$0.2 million of proceeds from the exercise of stock options.

In the three months ended March 31, 2011, cash used in financing activities of \$0.1 million was primarily attributable to repayments on our capital leases of \$0.4 million partially offset by \$0.3 million of proceeds from the exercise of stock options and warrants.

In 2011, cash used in financing activities of \$10,000 was primarily attributable to repayments on our capital lease obligations of \$1.5 million partially offset by \$1.5 million of proceeds from the exercise of stock options and warrants.

In 2010, cash used in financing activities of \$0.5 million was primarily attributable to repayments on our capital lease obligations of \$1.1 million partially offset by \$0.6 million of proceeds from the exercise of stock options.

In 2009, cash used in financing activities of \$1.2 million was primarily attributable to repayments on our capital lease obligations and notes payable of \$1.4 million, offset by \$0.2 million of proceeds from the exercise of stock options.

Line of Credit

In March 2009, we entered into an equipment line of credit of \$1.5 million. In March 2010, we amended this line of credit. The amount available for draws at the time of the amendment was increased by \$0.8 million and was available through February 2011. In December 2010, we completed a second amendment to our line of credit. The amount available for draws at the time of the second amendment was increased by an additional \$1.0 million and was available through February 2012. At December 31, 2011 and March 31, 2012, we had \$0.9 million and \$0.7 million, respectively, in outstanding borrowings under this line of credit, which are recorded in capital lease obligations in the consolidated balance sheets. The remaining amount available for borrowings at December 31, 2011 was \$0.9 million. Our line of credit expired in February 2012, and we are not able to draw any further funds from our line of credit.

Contractual Obligations

Our principal commitments consist of obligations under our outstanding leases for office space and third-party data centers, capital lease and third-party software maintenance obligations and non-contingent payments for business acquisitions. The following table summarizes our contractual cash obligations, including future interest payments, at December 31, 2011 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

| Contractual Obligations | Payment Due by Period | | | | |
|------------------------------------------------------------------|-----------------------|---------------------|----------------|----------------|----------------------|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| | | | (in thousands) | | |
| Operating lease obligations ⁽¹⁾ | \$10,884 | \$ 2,733 | \$3,859 | \$2,846 | \$ 1,446 |
| Capital lease obligations ⁽²⁾ | 4,541 | 2,093 | 2,448 | — | — |
| Maintenance obligations ⁽³⁾ | 2,611 | 826 | 1,785 | — | — |
| Non-contingent payments for business acquisitions ⁽⁴⁾ | 1,050 | 1,050 | — | — | — |
| Total | \$19,086 | \$ 6,702 | \$8,092 | \$2,846 | \$ 1,446 |

- (1) Operating lease obligations represent our obligations to make payments under the lease agreements for our facilities and office equipment leases. During the three months ended March 31, 2012, we made regular payments on our operating lease obligations of \$0.8 million.
- (2) Capital lease obligations represent financing on computer equipment and software purchases. During the three months ended March 31, 2012, we made regular payments on our capital lease obligations of \$0.7 million.
- (3) Maintenance obligations relate to third-party software licenses. During the three months ended March 31, 2012, we made regular payments on our maintenance obligations of \$0.4 million.
- (4) Non-contingent payments for business acquisitions represents additional cash consideration payable in connection with acquisitions.

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

Under the JOBS Act we meet the definition of an "emerging growth company." We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act. As a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required from non-emerging growth companies.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement*, which generally represents clarifications of ASC Topic 820, Fair Value Measurement, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 should be applied prospectively and is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. We do not expect the adoption of ASU 2011-04 to have a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the

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statement of financial position as well as instruments and transactions executed under a master netting or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to impact our financial position or results of operations.

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 and British pound, the currencies of countries where we currently have our most significant international operations. A portion of our invoicing is denominated in the Euro, British pound and Japanese yen. Our expenses in international locations are generally denominated in the currencies of the countries in which our operations are located.

Beginning in 2012, we began to use foreign exchange forward contracts to partially mitigate the impact of fluctuations in cash and accounts receivable balances denominated in Euros. We do not use these contracts for speculative or trading purposes, nor are they designated as hedges. These contracts typically have a maturity of one month, and we record gains and losses from these instruments in other income (expense), net.

Critical Accounting Policies and Estimates

Our 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.

Revenue Recognition

We derive revenues from subscriptions that require customers to pay a fee in order to access our cloud solutions. 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

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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. Customers are required to return physical scanner appliances if they do not renew their subscriptions. In some limited cases, we also provide certain computer equipment used to extend our QualysGuard Cloud Platform into our customers' private cloud environment. Customers generally enter into one year renewable annual subscriptions. We assess the ability to separate multiple deliverables in accordance with the relevant accounting literature.

We recognize revenues when all of the following conditions are met: (a) there is persuasive evidence of an arrangement; (b) the service has been provided to the customer; (c) the collection of the fees is reasonably assured; and (d) the amount of fees to be paid by the customer is fixed or determinable.

Subscriptions for unlimited scans and certain limited scan arrangements with firm expiration dates are recognized ratably over the period in which the services are performed, generally one year. We recognize revenues for certain other limited scan arrangements, where expiration dates can be extended, on an as-used basis. We recognize the subscription of physical scanner appliances and other computer equipment as revenues ratably over the period of the subscription, which is commensurate with the term of the related subscription. Because the customer's access to our cloud solutions are delivered at the same time or within close proximity to the delivery of physical scanner appliances and the terms are commensurate for these services and equipment, we consider these elements as a single unit of accounting recognized ratably over the subscription term. Costs of shipping and handling charges associated with physical scanner appliances and other computer equipment are included in cost of revenues.

Deferred revenues consist of revenues billed or received that will be recognized in the future under subscriptions existing at the balance sheet date.

Goodwill and Intangibles

Goodwill represents the excess of the aggregate purchase price paid over the fair value of the net tangible and identifiable intangible assets acquired. Goodwill and other intangible assets are not amortized and are tested for impairment at least annually or whenever events or changes in circumstances indicate that the fair value is less than carrying value. We have determined that we operate in one reporting unit. We performed a qualitative assessment of our single reporting unit for 2011, which did not indicate that it is more likely than not that the reporting unit fair value is less than its carrying value, and concluded there was no impairment of goodwill. The goodwill balance was \$0.3 million as of December 31, 2010 and 2011. No impairment of goodwill was recorded for 2010 or 2011.

Income Taxes

We are subject to 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 be subject to U.S. income tax.

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 and laws expected to apply to taxable income in the years in which those temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period in which the statutory rate change is enacted in law.

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As of December 31, 2011, we had recorded a full valuation allowance on our deferred tax assets. In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which temporary differences such as loss carry-forwards and tax credits become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment and ensuring that the deferred tax asset valuation allowance is adjusted as appropriate. As of December 31, 2011, based on the accumulation of negative evidence, such as inconsistent quarterly earnings, including net losses in the three months ended December 31, 2011 and March 31, 2012, continued heavy investment in research and development activities and in our infrastructure, and international expansion, management determined it was not more likely than not that the benefits of our deferred tax assets will be realized. If we determine in the future that we will be able to realize all or a portion of our net operating loss or tax credit carryforwards, an adjustment to our net operating loss or tax credit carryforwards would increase net income in the period in which we make such a determination.

We have assessed our income tax positions and recorded tax benefits for all years subject to examination, based upon evaluation of the facts, circumstances and information available at the end of each period. We recognize tax benefits from uncertain tax positions when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. We record interest and penalties related to unrecognized tax benefits in our provision for income taxes.

Significant judgment is required in evaluating tax positions and determining the provision for income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and the deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position, results of operations or cash flows.

Stock-Based Compensation

We recognize compensation expense for our employee stock options over the requisite service period for awards of equity instruments based on the grant-date fair value of those awards ultimately expected to vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Determining the appropriate fair value model and calculating the fair value of stock-based payment awards requires the use of highly subjective assumptions, including the expected life of the stock-based payment awards and stock price volatility. The assumptions used in calculating the fair value of stock-based payment awards 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. In 2009, 2010 and 2011, we used the Black-Scholes option-pricing model and the following assumptions to determine fair values of option grants and related compensation expense:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------|-------------------------|--------------|--------------|------------------------------|--------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| Expected term (in years) | 5.7 | 5.5 | 5.6 | 5.6 | 5.3 to 6.0 |
| Volatility | 51% | 57% to 58% | 55% | 55% | 53% |
| Risk-free interest rate | 1.7% to 2.7% | 1.1% to 2.6% | 0.8% to 2.3% | 2.2% | 0.7% to 0.9% |
| Dividend yield | — | — | — | — | — |

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We have been a private company and have lacked company-specific historical and implied volatility information. Accordingly, we have estimated our expected volatility based on the historical volatility of our self-designated peer group consisting of publicly-held companies selected because of the similarity of their industry, business model and financial risk profile. The expected volatility of options granted has been determined using an average of the historical volatility measures of this peer group of companies for a period equal to the expected term of the option. We intend to continue to consistently apply this process using the same or similar entities until such time that sufficient information regarding the volatility of our share price becomes available or we determine that other companies should be added or are no longer suitable.

The expected term of options was estimated by analyzing the historical period from grant to settlement of the stock option. This analysis includes exercises and forfeitures, and also gives consideration to the expected holding period for those options that are still outstanding. The risk-free interest rate is based on a daily treasury yield curve rate that has a term consistent with the expected life of the stock option. We have not paid and do not anticipate paying cash dividends on our common stock, and therefore our expected dividend yield is assumed to be zero. We also estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If our actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what we have recorded in the current period.

We also record compensation representing the fair value of stock options granted to non-employees. Stock-based non-employee compensation is recognized over the vesting periods of the options. The value of options granted to non-employees is periodically remeasured as they vest over a performance period.

Our stock-based compensation expense was as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------------|-------------------------|----------------|----------------|------------------------------|---------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| | | | (in thousands) | | |
| Cost of revenues | \$ 47 | \$ 80 | \$ 143 | \$ 18 | \$ 54 |
| Research and development | 315 | 359 | 499 | 113 | 142 |
| Sales and marketing | 284 | 467 | 578 | 118 | 199 |
| General and administrative | 474 | 964 | 927 | 228 | 275 |
| Total stock-based compensation | <u>\$1,120</u> | <u>\$1,870</u> | <u>\$2,147</u> | <u>\$477</u> | <u>\$ 670</u> |

We have historically granted stock options at exercise prices equal to the fair value as determined by our board of directors on the date of grant, with inputs from management. Because our common stock is not publicly traded, our board of directors exercises significant judgment in determining the fair value of our common stock on the date of grant based on a number of objective and subjective factors. Factors considered by our board of directors included:

- contemporaneous independent valuations performed at periodic intervals by outside firms;
- our results of operations, financial condition and future financial projections;
- peer group trading multiples;
- changes in the company since the last time the board of directors approved option grants and made a determination of fair value;
- the illiquidity of shares of our common stock; and

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• our future prospects and opportunity for liquidity events such as an initial public offering and possible strategic merger or sale.

The following table summarizes by period the number of shares subject to options granted between January 1, 2011 and March 31, 2012, the per share exercise price of the options and the per share estimated fair value of our common stock at the date of grant:

| <u>Period</u> | <u>Number of Shares Subject to Options Granted</u> | <u>Per Share Exercise Price of Option</u> | <u>Common Stock Fair Value Per Share at Grant Date</u> |
|---------------|----------------------------------------------------|-------------------------------------------|--------------------------------------------------------|
| February 2011 | 5,853,939 | \$ 0.44 | \$ 0.44 |
| April 2011 | 2,718,942 | 0.48 | 0.48 |
| May 2011 | 37,500 | 0.48 | 0.48 |
| July 2011 | 4,285,000 | 0.51 | 0.51 |
| August 2011 | 125,000 | 0.51 | 0.51 |
| November 2011 | 4,278,246 | 0.59 | 0.59 |
| December 2011 | 870,000 | 0.59 | 0.59 |
| February 2012 | 2,648,656 | 0.67 | 0.67 |

Significant Factors, Assumptions and Methodologies Used in Determining the Fair Value of Common Stock

Our valuation analysis has been conducted under a probability-weighted expected return method, or PWERM, as prescribed by the AICPA Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The PWERM approach employs various market approach and income approach calculations depending upon the likelihood of various liquidation scenarios. For each of the various scenarios, an equity value is estimated and the rights and preferences for each shareholder class are considered to allocate the equity value to common shares. The common share value is then multiplied by a discount factor reflecting the calculated discount rate and the timing of the event. Lastly, the common share value is multiplied by an estimated probability for each scenario. The probability and timing of each scenario are based upon discussions between our board of directors and our management team. Under the PWERM, the value of our common stock is based on upon three possible future events for our company:

- Completion of an initial public offering;
- Strategic merger or sale; and
- Continuation as a private company.

The market approach uses similar companies or transactions in the marketplace. We utilized the guideline publicly traded company method of the market approach for the initial public offering scenario and the guideline merged and acquired company method of the market approach for the strategic merger or sale scenario. We identified companies similar to our business and used these guideline companies to develop relevant market multiples and ratios. We then applied these market multiples and ratios to our financial forecasts to create an indication of total equity value. The income approach, which we utilize to assess fair value of the common stock under the assumption we remain a private company, is an estimate of the present value of the future monetary benefits generated by an investment in that asset. Specifically, debt-free cash flows and the estimated terminal value are discounted at appropriate risk-adjusted discount rates to estimate the total invested capital value of the equity.

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Significant factors considered by our board of directors in determining the fair value of our common stock at these grant dates include:

February 2011

We performed the PWERM methodology to value our common stock, which reflected various changes in our financial performance, the value of similar publicly-held companies, the value of similar recently merged or sold companies, and other factors. The present values calculated for common stock under the possible outcomes were weighted based on management's estimates of the probability of each scenario occurring, which were 10% for an initial public offering, 80% for a strategic merger or sale and 10% for continuing as a private company. We applied a risk-adjusted discount of 27.5% and a discount for lack of marketability of 20%. The expected exit date was approximately 14 months from valuation date. Based on these factors, the probability-weighted expected return value resulted in an estimated fair value of our common stock of \$0.44. The board of directors therefore determined the fair value of common stock to be \$0.44 per share and granted 5,853,939 shares in February 2011 at an exercise price of \$0.44 per share.

April and May 2011

We performed the same PWERM methodology as in the previous quarter to value our common stock. Management's estimates of the probability of each scenario occurring remained unchanged at 10% for an initial public offering, 80% for a strategic merger or sale and 10% for continuing as a private company. We applied a risk-adjusted discount of 25% and a discount for lack of marketability of 20%. Given the macro-economic conditions and uncertainty in the market place, we delayed the exit date by one quarter, and accordingly, the expected exit date was approximately 14 months from valuation date. We also reduced the risk-adjusted discount rate to 25% to be more in line with our weighted average cost of capital. Based on these factors, the probability-weighted expected return value resulted in an estimated fair value of our common stock of \$0.48. Although the time to liquidity date did not change, the increase was a result of higher enterprise values calculated based on improved forecasted performance. The board of directors therefore determined the fair value of common stock to be \$0.48 per share and granted 2,718,942 shares in April 2011 and 37,500 shares in May 2011 at an exercise price of \$0.48 per share.

July and August 2011

We performed the same PWERM methodology as in the previous quarter to value our common stock. Management's estimates of the probability of each scenario occurring were 10% for an initial public offering, 80% for a strategic merger or sale and 10% for continuing as a private company. We applied a risk-adjusted discount of 20% and a discount for lack of marketability of 20%. We continued to delay the exit date by one quarter, and accordingly, the expected exit date was approximately 14 months from valuation date. We also reduced the risk-adjusted discount rate to 20% to be more in line with our weighted average cost of capital. Based on these factors, the probability-weighted expected return value resulted in an estimated fair value of our common stock of \$0.51. Although the time to liquidity date did not change, the increase was a result of higher enterprise values as we continued to fine-tune our forecast of future revenues, given the bookings growth of the most recent four quarters. The board of directors therefore determined the fair value of common stock to be \$0.51 per share and granted 4,285,000 shares in July 2011 and 125,000 shares in August 2011 at an exercise price of \$0.51 per share.

November and December 2011

We performed the same PWERM methodology as in the previous quarter to value our common stock. Management's estimates of the probability of each scenario occurring were 10% for an initial

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public offering, 80% for a strategic merger or sale and 10% for continuing as a private company. We applied a risk-adjusted discount of 20% and a discount for lack of marketability of 20%. The expected exit date at the latter part of 2012 remained unchanged and was approximately 11 months from valuation date. Based on these factors, the probability-weighted expected return value resulted in an estimated fair value of our common stock of \$0.59. The increase primarily resulted from the shortened period to exit date as well as increased enterprise values with improved bookings growth from the prior year's four quarters. The board of directors therefore determined the fair value of common stock to be \$0.59 per share and granted 4,278,246 shares in November 2011 and 870,000 shares in December 2011 at an exercise price of \$0.59 per share.

February 2012

We performed the same PWERM methodology as in the previous quarter to value our common stock. Management's estimates of the probability of each scenario occurring were 20% for an initial public offering, 70% for a strategic merger or sale and 10% for continuing as a private company. We had just completed three profitable years and had bookings growth of over 20% for the most recently completed full year. Given our performance and the improving overall market conditions, we felt that we were more likely to pursue an IPO and increased the probability to 20% for the IPO scenario and reduced the merger and sale scenario to 70%. The exit date remained unchanged for the latter part of 2012 and was approximately 8 months from valuation date. As we approached the liquidity date, we also reduced the risk-adjusted discount to 15%, while the discount for lack of marketability remained unchanged at 20%. Based on these factors, the probability-weighted expected return value resulted in an estimated fair value of our common stock of \$0.67. The board of directors therefore determined the fair value of common stock to be \$0.67 per share and granted 2,648,656 shares in February 2012 at an exercise price of \$0.67 per share.

The intrinsic value of all outstanding options as of March 31, 2012 was \$ million based on the estimated fair value for our common stock of \$ per share, which is the midpoint of the estimated offering price range set forth on the cover page of this prospectus. As of March 31, 2012, we had \$4.7 million of unrecognized stock-based compensation expense, net of estimated forfeitures, that is expected to be recognized over a weighted-average period of 3 years. In future periods, we expect our stock-based compensation expense to increase in absolute dollars as a result of our existing stock-based compensation to be recognized as these options vest and as we issue additional stock-based awards to attract and retain employees.

BUSINESS

Overview

We are a pioneer and leading provider of cloud 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 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. Our integrated suite of security and compliance solutions delivered on our QualysGuard Cloud Platform enable our customers to identify 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 can use our integrated suite of solutions delivered on our QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

IT infrastructures are more complex and globally-distributed today than ever before, as organizations of all sizes increasingly rely upon myriad 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 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 security and compliance solutions.

We designed our QualysGuard 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, security assessments, and compliance management for an organization's IT infrastructure and assets, whether they reside inside the organization, on their network perimeter 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, broader adoption and lower total cost of ownership than traditional on-premise enterprise software products. Our customers, ranging from some of the largest organizations to small businesses, are all served from our globally-distributed cloud platform, enabling us to rapidly deliver new solutions, enhancements and security updates.

Our QualysGuard Cloud Platform is currently used by over 5,700 organizations in more than 100 countries, including a majority of each of the Forbes Global 100 and Fortune 100. We offer our suite of solutions primarily through renewable annual subscriptions. Our revenues increased from \$57.4 million in 2009 to \$65.4 million in 2010 and to \$76.2 million in 2011, and reached \$21.2 million for the three months ended March 31, 2012, compared to \$17.7 million in the three months ended March 31, 2011. We generated net income of \$0.9 million in 2009, \$0.4 million in 2010 and \$2.0 million in 2011, and a net loss of \$0.3 million for the three months ended March 31, 2012, compared to net income of \$1.0 million for the three months ended March 31, 2011.

Industry Overview

IT infrastructures are rapidly evolving to take advantage of new technology trends, such as increasing adoption of cloud computing, broad usage of virtualization and increasing workforce mobility, that enable organizations to enhance productivity, lower costs, increase operational flexibility and gain a competitive advantage. However, as IT infrastructures evolve into more complex combinations of on-premise products and cloud solutions delivered globally through a wide range of devices and applications, these technologies also present new security and compliance challenges.

The rise of cloud computing has expanded the traditional IT infrastructure boundary to incorporate third-party providers that host applications and store and share sensitive data. For example, it is increasingly common for organizations to employ third-party providers to deliver mission-critical financial, human resources or sales and support applications as a service in the cloud. IDC estimates that the worldwide software-as-a-service market will grow from \$16.6 billion in 2010 to \$53.6 billion in 2015, representing a compound annual growth rate, or CAGR, of 26.4%. This transition to cloud computing reflects a marked departure from the traditional on-premise enterprise software delivery model and exposes organizations to additional security vulnerabilities. Concurrently, other technology trends, such as the broad adoption of virtualization and increasing workforce mobility have also rapidly expanded the scope of physical and virtual endpoints that need to be identified, monitored and managed as these endpoints access and store sensitive corporate, customer, or personal data.

As IT infrastructures have evolved, so too have cyber attackers, who are motivated by the increasing value of stolen information or the potential recognition from disrupting corporate and government assets, such as networks, power plants and financial trading platforms. These cyber attackers are seeking to exploit the increased vulnerability of IT infrastructures and growing number of potential methods that can be used to gain unauthorized access to IT assets, which are referred to as “attack vectors.” As a result, the sophistication, scale and frequency of attacks continue to increase.

Critical Security and Compliance Challenges Facing Organizations

The dramatic changes in IT infrastructures have created significant challenges for organizations of all sizes. These challenges include:

- **Traditional IT security and compliance approaches struggle to effectively secure evolving IT environments.** As IT infrastructures evolve to include a mixture of on-premise, cloud and hybrid environments consisting of multiple networks and millions of devices, traditional on-premise enterprise software products may limit the ability of organizations to provide a complete and accurate inventory of IT assets and configurations, and may prevent organizations from effectively protecting their infrastructures from security threats and ensuring compliance with internal policies and external regulations. In an effort to secure their IT infrastructures and achieve compliance, organizations have historically made significant investments in a variety of products and services, each of which was typically designed to address a specific security issue. However, this approach often does not provide a current, accurate and global picture of an organization’s security and compliance posture without costly and labor-intensive integration. The time and effort required to audit an organization’s IT infrastructure, prioritize threats by their potential impact and find remediations for identified vulnerabilities under this traditional approach can impose substantial burdens on IT infrastructure and personnel.
- **Security attacks targeting new layers of the IT infrastructure.** In addition to well-known attack vectors, such as email and firewalls, the proliferation of networked devices, endpoints and web applications provides cyber attackers with a broader range of additional vulnerabilities to exploit across the IT infrastructures, many of which are difficult for enterprises to identify and costly to remediate. These vulnerabilities typically result from coding weaknesses in commercial and custom software, use of outdated software with known security weaknesses,

and configuration flaws such as unchanged default passwords or unnecessary access privileges. Some of the common points of vulnerability include:

- Networked devices, including databases, desktops, mobile devices, routers, servers and switches, which are used to store, manage and access sensitive data, are being deployed more rapidly within organizations, with some having millions of these assets. This expansion of networked devices increases the number of security vulnerabilities that may allow hackers to gain unauthorized access to IT systems.
- Modern web applications, which are becoming more prevalent across organizations, making them more difficult to detect, track and manage. The importance of these applications and the quantity and sensitivity of their underlying data have attracted cyber attackers intent on exploiting related coding weaknesses and configuration flaws to steal sensitive data or to reduce application availability.
- Web browsers and browser plug-ins, which are increasingly used to access an organization's data and applications hosted in public and private cloud environments, and often contain vulnerabilities that can lead to malware infection. Although browser providers and plug-in developers frequently release patches or new versions of their software to address these vulnerabilities, remediation of these vulnerabilities can be both time consuming and expensive, particularly in large organizations. Absent appropriate assessment and monitoring tools, outdated browsers and plug-ins can be exploited by cyber attackers to capture information, steal access credentials or gain control of users' devices.

• **Costly regulatory and compliance requirements.** As security breaches have increased, so have regulatory and compliance requirements. Regulations and policies are often required by multiple national and local authorities, and can overlap one another, change frequently, require costly and time consuming compliance measures and carry significant financial and reputational consequences for non-compliance. Examples of such external regulations include the Revised International Capital Framework, or Basel II, the Health Insurance Portability and Accountability Act, or HIPAA, North American Electric Reliability Corporation Standards, or NERC, Payment Card Industry Data Security Standards, or PCI DSS, and the Sarbanes-Oxley Act of 2002, or SOX. A 2011 Gartner survey estimates that it costs organizations an average of \$1.7 million to become compliant with PCI DSS. In addition, the growth in attack vectors is compelling organizations to implement increasingly complex internal IT policies. As a result, organizations are faced with the increasing challenge and cost of managing policy compliance in addition to maintaining the security of their IT infrastructures.

• **Security concerns for organizations adopting cloud applications and services.** IT organizations are under increasing pressure to adopt next-generation cloud applications and services that enable organizations to be competitive and operate more effectively. Although many cloud application providers have made significant advancements in securing their environments, they typically provide organizations with limited visibility and access to the underlying architecture, inhibiting IT administrators from identifying potential gaps and validating the effectiveness of their security strategies. As a result, IT organizations are seeking solutions that provide comprehensive security across internal and cloud-based infrastructures.

Market Opportunity

The increasing complexity of IT infrastructures demands a new approach to IT security and compliance. Organizations are seeking efficient methods for discovering their IT assets, assessing the vulnerabilities of those assets and promptly remediating vulnerabilities. Reflecting this growing demand for next-generation solutions, IDC forecasts that the vendor revenue tied to Cloud Security based

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solutions and for all types of Security & Vulnerability Management solutions will grow from a combined \$5.1 billion in 2011 to a combined \$9.3 billion in 2015, representing a CAGR of 15.9%. We believe there is considerable need for a comprehensive cloud security and compliance platform that can be easily and quickly deployed and can continuously collect and analyze large amounts of data from IT assets and web applications across globally-distributed IT environments.

Our Solution

We provide a cloud platform and integrated suite of solutions that enable organizations to simplify the process and reduce the cost of securing their IT assets and achieving compliance with internal policies and external regulations. Our solutions help organizations with globally distributed data centers and IT infrastructures to identify 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. By deploying our solutions, organizations can gain actionable security intelligence into potential vulnerabilities and malware in their IT infrastructure and enable their compliance with internal policies and external regulations.



Our platform and integrated suite of solutions:

- ÿ **Delivers a robust and integrated suite of security solutions through a cloud platform.** Our cloud architecture enables regular, automated scanning and analysis across large, global networks for an organization's connected devices, endpoints and web applications from a single platform, and can be extended to third-party systems and applications within an organization's ecosystem of customers and partners. This allows an organization to audit, enforce and document network and application security in accordance with internal policies and external regulations and to replace complex, costly and time-consuming manual tasks with automated and repeatable processes. Our suite of solutions is designed to be easily deployed on a global scale and accessed and managed through a unified web-based interface, enabling faster implementation, lower total cost of ownership, and broader adoption than traditional solutions.
- ÿ **Provides visibility into security across a broad range of IT assets and attack vectors.** We enable our customers to substantially improve the security of their IT infrastructures by providing an automated, global and objective assessment of their security and compliance posture from the network to the application, including an organization's networked devices, endpoints and web applications, as well as web browsers with their corresponding plug-ins. Our platform provides detailed reporting and analysis to enable remediation of potential vulnerabilities and confirm that remediation actions have been successfully implemented. Built on a uniform code base, our cloud platform enables our customers to deploy our solutions concurrently or sequentially depending on their security needs and adoption strategy.
- ÿ **Enables more effective and lower-cost policy and regulatory compliance.** Our policy compliance solutions enable organizations to reduce the risk of internal and external threats, automate compliance-related workflows and provide documentation of compliance demanded by regulators, auditors and other governing bodies. These solutions leverage the scanning capabilities of our cloud platform to collect operating system configurations and application access control data from IT assets and map this information to user-defined policies in order to accurately and efficiently document compliance with regulations and business mandates, thereby potentially reducing cost. Our solutions also provide pre-configured compliance frameworks to automate compliance with external regulations and other requirements, such as Basel II, HIPAA, NERC, PCI DSS and SOX.
- ÿ **Enhances security of cloud computing.** We help our customers to securely extend their IT infrastructures to cloud environments. Our cloud platform identifies and evaluates physical and virtual IT assets within internal and third-party IT environments, providing our customers with visibility into their security and compliance postures across their extended infrastructures. In addition, by utilizing our cloud platform, cloud service providers can more effectively secure their IT infrastructures and demonstrate their level of security and compliance to their customers.

Our Competitive Strengths

Our vision is to transform the way organizations secure and protect their IT infrastructures and applications. We believe our competitive strengths include:

- ÿ **Trusted brand in cloud security.** We are a pioneer in cloud security, having introduced our vulnerability management solution as a service in 2000, and have since built a reputation as a trusted and objective provider of reliable and accurate vulnerability and compliance assessments. With over 5,700 customers worldwide, our suite of solutions is used by leading organizations, managed service providers and consulting organizations to help protect IT assets.

- ÿ **Scalable and extensible cloud platform serving organizations of all sizes, across many industries globally.** Our highly-scalable cloud architecture and modular security and compliance solutions allow customers to access the functionality they need to help ensure the security of their IT infrastructures. Our cloud platform is designed to serve organizations ranging from small businesses to large enterprises with millions of unique IP-addressable networked devices and applications across globally-distributed IT infrastructures. Our cloud platform also allows us to rapidly deliver enhancements to our entire customer base. Our world-wide customers and channel partners operate in numerous industries including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities.
- ÿ **Longstanding focus on innovation in cloud security and compliance.** Since inception, we have introduced innovative cloud security and compliance solutions that allow our customers to protect their IT environments more effectively and at a lower cost. We have invested significantly to continuously improve our platform and believe that we are well positioned to address the challenges of the evolving IT security and compliance landscape. Our extensive domain expertise in both security and cloud architecture allows us to rapidly introduce new security and compliance solutions, anticipate evolving security and compliance needs and develop new, innovative solutions for our customers.
- ÿ **Efficient customer acquisition and upsell model.** Our cloud delivery model allows potential and existing customers to easily and immediately access one or more of our solutions on a trial basis from any web browser. This model also allows our customers to subscribe to only the solutions they need initially and easily expand the breadth of their deployment and the number of solutions they use as their needs evolve. In an effort to increase market awareness of our brand and solutions and to generate sales leads, we also offer several free services from our website, including vulnerability scans, web application scans, malware detection, browser checks and SSL configuration analysis. We believe our customer acquisition model provides the flexibility organizations desire when evaluating software purchases and encourages the adoption of our solutions.

Our Growth Strategy

We intend to leverage our innovation and extensive expertise to strengthen our leadership position as a trusted provider of cloud security and compliance solutions. The key elements of our growth strategy are:

- ÿ **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 further enhancing our existing suite of solutions. We recently introduced several new solutions on our platform, including our Web Application Scanning and Zero-Day Risk Analyzer, and have additional solutions under development.
- ÿ **Expand the use of our suite of solutions by our large and diverse customer base.** With more than 5,700 customers 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. Since the majority of our customers initially deploy only one of our solutions and in select parts of their IT infrastructures, our existing customers serve as a strong source of new sales. In this regard, we have significantly expanded our sales execution and marketing functions to increase adoption of our newly developed solutions among our existing customers.
- ÿ **Drive new customer growth.** We are pursuing new customers by targeting key accounts and expanding our sales and marketing organization and network of channel partners. We will

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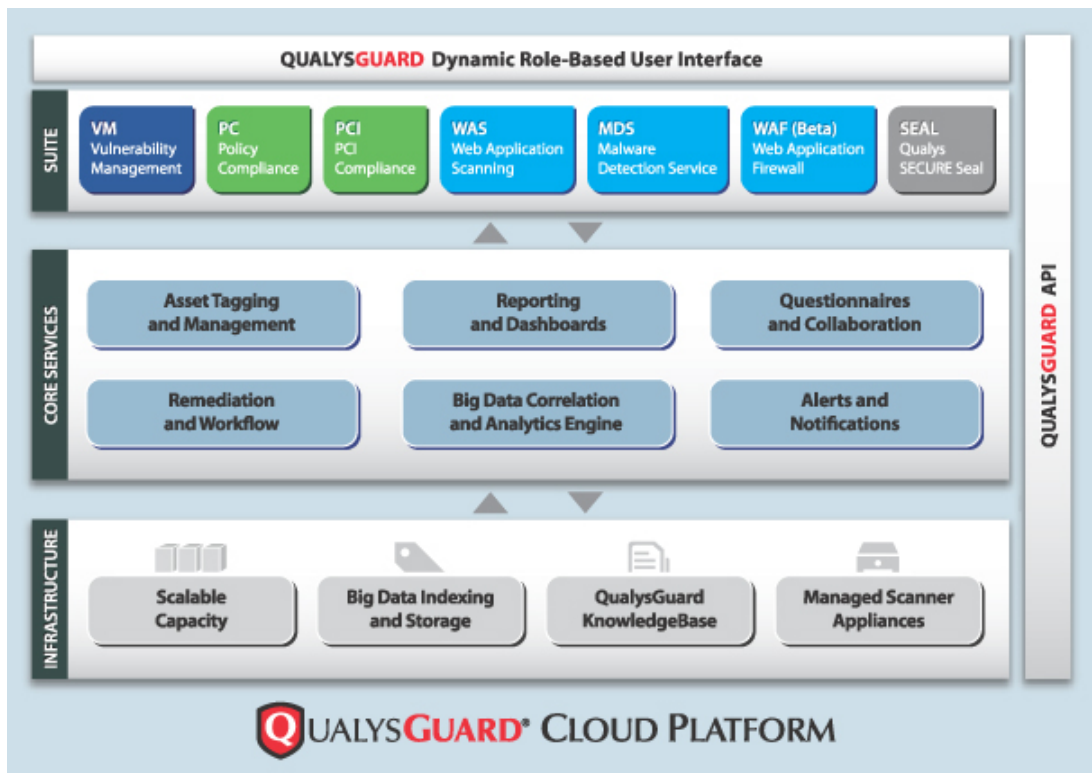
continue to seek to make significant investments to encourage organizations to replace their existing security products with our cloud solutions.

- **Broaden our global reach.** 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.
- **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 technology teams to supplement our own team and increase the breadth of our cloud security and compliance solutions.

Our Platform

Our QualysGuard Cloud Platform consists of a suite of IT security and compliance solutions that leverage our shared and extensible core services and our highly scalable multi-tenant cloud infrastructure.

The following diagram illustrates our QualysGuard Cloud Platform:



Our suite of solutions provides security intelligence by automating the life cycle of IT asset discovery, security assessment and compliance management. Our core services layer provides a set

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of advanced shared technologies that are leveraged by our suite of security and compliance solutions, which we refer to as our Core Services.

Built on our cloud platform infrastructure, our Core Services provide an integrated framework with proprietary functionalities that act as building blocks to enable efficient and scalable delivery of our customer-facing cloud solutions. Our cloud platform's infrastructure includes integrated services that deliver a highly automated and scalable scanning infrastructure capable of scanning IT systems and web applications, inside and outside corporate firewalls.

The Core Services and infrastructure layers of our cloud platform deliver benefits to our entire suite of security and compliance solutions, including:

- Dynamic and interactive user interfaces with configurable report templates to present scan data with a wide range of presentation options to match a customer's needs;
- Fast searching of several extensive QualysGuard data sets, including scan results, asset data, scan profiles, users and vulnerabilities;
- Asset management technology for hierarchical asset categorization via dynamic tagging and role-based customer access management; and
- Distributed scanning platform for global cloud-based environments.

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.

QualysGuard Cloud Suite

Our suite of solutions, which we refer to as the QualysGuard Cloud Suite, currently includes six solutions: Vulnerability Management, Web Application Scanning, Malware Detection Service, Policy Compliance, PCI Compliance and Qualys SECURE Seal. This integrated set of cloud solutions enables organizations to:

- Discover and catalogue information assets inside the organization, on the perimeter, or in the cloud;
- Manage assets on an ongoing basis to establish a trusted repository for IT system configurations and to maintain hierarchical relationships between them;
- Design policies to establish a secure and compliant IT infrastructure and automate ongoing security and compliance assessments of IT systems and applications in accordance with best practices;
- Proactively identify and help fix vulnerabilities to mitigate security risks and achieve compliance;
- Monitor and measure security and compliance through a unified user interface; and
- Distribute security and compliance reports tailored to differing customer needs, including management personnel, auditors and security professionals.

Our customers can subscribe to one or more of our security and compliance solutions based on their initial needs and expand their subscriptions over time to new areas within their organization or to additional QualysGuard solutions. We offer two editions of our QualysGuard Cloud Suite, the Enterprise edition for large and medium-sized enterprises and the Express edition for small and medium-sized businesses. QualysGuard Cloud Suite solutions are described below.

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QualysGuard Vulnerability Management

QualysGuard Vulnerability Management, or QualysGuard 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 KnowledgeBase of known vulnerabilities, QualysGuard VM enables cost-effective protection against vulnerabilities without substantial resource deployment.

QualysGuard Policy Compliance

QualysGuard Policy Compliance, or QualysGuard PC, allows customers to analyze and collect configuration and access control information from their networked devices and web applications and automatically maps this information to internal policies and external regulations in order to document compliance. QualysGuard PC is fully automated and helps reduce customers' cost of compliance without requiring the use of software agents.

QualysGuard PCI Compliance

QualysGuard PCI Compliance, or QualysGuard PCI, provides organizations that store cardholder data a cost-effective and highly automated solution to verify and document compliance with PCI DSS. QualysGuard PCI allows merchants to complete the annual PCI Self-Assessment Questionnaire, or SAQ, to perform vulnerability scanning for quarterly PCI audits and to meet the demands of PCI for web application security.

QualysGuard Web Application Scanning

QualysGuard Web Application Scanning, or QualysGuard WAS, uses the scalability of our cloud platform to allow customers to discover, catalog and scan a large number of web applications. QualysGuard WAS scans and analyzes custom web applications and identifies vulnerabilities that threaten underlying databases or bypass access controls. These web applications are often the main attack vectors for cyber attackers.

QualysGuard Malware Detection Service

QualysGuard Malware Detection Service, or QualysGuard MDS, provides organizations with the ability to scan, identify and remove malware infections from their websites. QualysGuard MDS utilizes behavioral and static analysis to provide malware detection to organizations. It provides periodic scanning to monitor web sites and delivers email alerts to notify customers of infections.

QualysGuard Web Application Firewall

QualysGuard Web Application Firewall, or QualysGuard WAF, currently in beta testing, delivers enterprise-grade web application security without the costs, footprint, and complexity associated with appliance-based web application firewall solutions. It is designed to protect web applications from attack vectors by enhancing default web application configurations and virtual patching. QualysGuard WAF can improve website performance by reducing page load times and optimizing bandwidth.

Qualys SECURE Seal

QualysGuard SECURE Seal helps organizations demonstrate to their online customers that they maintain a proactive security program. This solution includes scanning for the presence of malware, network and web application vulnerabilities and for SSL certificate validation. Websites that regularly

perform these security scans with no critical security issues detected can display a QualysGuard SECURE Seal on their website to demonstrate to visitors that they are proactively securing their websites.

QualysGuard Core Services

Our Core Services enable integrated workflows, management and real-time analysis and reporting across all of our IT security and compliance solutions. Our Core Services include:

- ÿ *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.
- ÿ *Reporting and Dashboards.* A highly configurable reporting engine that provides customers with reports and dashboards based on their roles and access privileges.
- ÿ *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.
- ÿ *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.
- ÿ *Big Data Correlation and Analytics Engine.* Provides 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.
- ÿ *Alerts and Notifications.* Creates email notifications to alert customers of new vulnerabilities, malware infections, scan completion, open trouble tickets and system updates.

QualysGuard Cloud Infrastructure

Our infrastructure layer, which we refer to as our Infrastructure, includes the data, data processing capabilities, software and hardware infrastructure and infrastructure management capabilities that provide the foundation for our cloud platform and allow us to automatically scale our Infrastructure and Core Services to scan millions of IPs. Each Infrastructure service is described below:

- ÿ *Scalable Capacity.* We have designed a modular and scalable infrastructure that leverages virtualization and cloud technologies. This allows our operations team to dynamically allocate additional capacity on-demand across our entire QualysGuard Cloud Platform to address the growth and scalability of our solutions.
- ÿ *Big Data Indexing and Storage.* Built on top of our secure data storage model, this engine indexes petabytes of data and uses this information in real-time to execute tags or rules to dynamically update IT assets' properties, which are used in various workflows for scanning, reporting and remediation.
- ÿ *QualysGuard KnowledgeBase.* QualysGuard relies on our comprehensive repository, which we refer to as our KnowledgeBase, of known vulnerabilities and compliance controls for a wide range of devices, technologies and applications that powers our security and compliance scanning technology. We update our KnowledgeBase daily with signatures for new vulnerabilities, control checks, validated fixes and improvements.

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• *Managed Scanner Appliances.* As part of our cloud platform, we host and operate a large number of globally distributed physical scanner appliances that our customers use to scan their externally facing systems and web applications. To scan internal IT assets, customers can also deploy our scanners, which are available on a subscription basis as physical appliances or downloadable virtual images, within their internal networks. Our scanner appliances self-update daily in a transparent manner using our automated and proprietary scan management technology. These scanner appliances allow us to scale our cloud platform to scan networked devices and web applications across organizations' networks around the world.

Our Customers

Our integrated suite of security and compliance solutions is used by a large and diverse customer base ranging from some of the largest organizations to small businesses, worldwide. Our customers include organizations in the education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities industries. We currently have over 5,700 customers in more than 100 countries. Our customers include Ally Financial Inc., Automatic Data Processing, Inc., Baylor University, Cigna Corporation, Daimler AG, E.I. duPont de Nemours and Company, Ignite Media Solutions, LLC and Williams Companies, Inc. The majority of our customers maintain relationships directly with us, while the others purchase subscriptions for our security and compliance solutions through our channel partners.

In each of 2009, 2010 and 2011, no one customer or channel partner accounted for more than 5% of our revenues. In 2009, 2010 and 2011, we generated approximately 69%, 67% and 67% of our revenues, respectively, from customers in the United States and approximately 31%, 33% and 33% of our revenues, respectively, from customers outside of the United States.

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 4,000 employees, and an inside sales team, which focuses on small to medium businesses, which generally include organizations with less than 4,000 employees. Both our field and inside sales teams are divided into three geographic regions, including the Americas; Europe, Middle East and Africa; and Asia-Pacific. We also further segment each of our sales teams into groups that focus on adding new customers or expanding 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 Computacenter UK Ltd., Dell Inc., FishNet Security, Inc., Insight Technologies, Inc., Symantec Corporation and Verizon Communications Inc.

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

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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. For the three months ended March 31, 2012, 41% of our revenues were generated by these 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

We deliver 24x7x365 customer support from centers located in Redwood City, California; Durham, North Carolina; and Slough, United Kingdom. We recruit senior level technical personnel and trained subject matter experts who work closely with engineering and operations personnel to resolve issues quickly. Our security and compliance solutions can be deployed easily and are designed to be implemented and operated without the need for any professional services. Accordingly, we do not sell any professional services. However, we do offer various training programs as part of our subscriptions to all of our customers. We believe that our customer support helps ensure customer satisfaction and is critical to retaining and expanding our customer base. In addition, we leverage the insights drawn from our customers to further improve the functionality of our security and compliance solutions.

Research and Development

We devote significant resources to maintain, enhance and add new functionality to our QualysGuard 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 have 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, Brazil, China, France, India, and United Kingdom, 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

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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.

Research and development expenses were \$13.4 million, \$15.8 million and \$19.6 million for 2009, 2010 and 2011, respectively, and \$5.1 million for the three months ended March 31, 2012.

Competition

The expanding capabilities of our 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 public companies, such as Hewlett-Packard Company, International Business Machines Corporation, McAfee, Inc. (a subsidiary of Intel Corporation) and Symantec Corporation, as well as private security providers including BeyondTrust Software, Inc., Lumension Security, Inc., nCircle Network Security, Inc., Rapid7 LLC, Tenable Network Security, Inc. and Trustwave Holdings, Inc. 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 security and compliance solutions, such as web application scanning and firewalls, we expect to face additional competition in these new markets.

We believe that the principal competitive factors affecting the market for cloud security and compliance solutions 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. 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. We have several pending U.S. patent applications and four exclusive licenses to U.S. patents. 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 our QualysGuard Cloud Platform, which we believe differentiates us from our competitors.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our solution. Policing unauthorized use of our technology and intellectual property rights is difficult.

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.

Employees

As of March 31, 2012, we had 313 full-time employees, including 117 in research and development, 119 in sales and marketing, 44 in operations and customer support and 33 in general and administrative. As of March 31, 2012, we had 237 employees in the United States and 76 employees internationally. None of our U.S. employees are covered by collective bargaining agreements. Employees in certain European countries have the benefits of collective bargaining arrangements at the national level. We believe our employee relations are good and we have not experienced any work stoppages.

Facilities

Our principal executive offices are located in Redwood City, California, where we occupy a 50,000 square-foot facility under a lease expiring on November 30, 2017. We have additional U.S. offices in Bellevue, Washington; Denver, Colorado; Durham, North Carolina; and Madison, Wisconsin. We also lease offices in Beijing, China; Courbevoie, France; Munich, Germany; Pune, India; Ras al-Khaimah, United Arab Emirates; Slough, United Kingdom; and Tokyo, Japan. We believe our facilities are adequate for our current needs and for the foreseeable future.

We operate two principal data centers at third-party facilities in Santa Clara, California and Geneva, Switzerland.

Legal Proceedings

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and positions of our executive officers and directors as of June 8, 2012:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|--------------------------------------|------------|---------------------------------------------------------|
| Executive Officers | | |
| Philippe F. Courtot | 67 | Chairman, President and Chief Executive Officer |
| Donald C. McCauley | 60 | Chief Financial Officer |
| Peter Albert | 45 | Vice President, Operations |
| Amer S. Deeba | 45 | Chief Marketing Officer |
| Bruce K. Posey | 60 | Vice President, General Counsel and Corporate Secretary |
| Sumedh S. Thakar | 36 | Vice President, Engineering |
| John N. Wilson | 46 | Executive Vice President, Worldwide Field Operations |
| Non-Employee Directors | | |
| Sandra E. Bergeron ⁽¹⁾⁽²⁾ | 53 | Director |
| Donald R. Dixon ⁽²⁾ | 64 | Director |
| Jeffrey P. Hank ⁽¹⁾ | 52 | Director |
| General Peter Pace ⁽³⁾ | 66 | Director |
| Yves B. Sisteron ⁽¹⁾⁽³⁾ | 57 | Director |

⁽¹⁾ Member of the Audit Committee.

⁽²⁾ Member of the Compensation Committee.

⁽³⁾ Member of the Nominating and Governance Committee.

Executive Officers

Philippe F. Courtot has served as our Chairman, President and Chief Executive Officer since March 2001, and has been a director since January 2000. From April 1999 to February 2000, Mr. Courtot served as Chairman and Chief Executive Officer of Signio Inc., a secure payments solution provider, until its acquisition by VeriSign, Inc. Mr. Courtot holds a Master of Science degree from the University of Paris.

We believe that Mr. Courtot possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as our President and Chief Executive Officer and his background in the technology industry, as well as his perspective as one of our significant stockholders.

Donald C. McCauley has served as our Chief Financial Officer since February 2006. From August 1999 to July 2005, Mr. McCauley served as Vice President and Chief Financial Officer of iPass, Inc. Mr. McCauley holds a Bachelor of Science degree from the University of Rhode Island.

Peter Albert has served as our Vice President, Operations since April 2011. From November 1999 to August 2010, Mr. Albert held various positions at iPass, including Vice President of Network Operations and Vice President of Engineering. Mr. Albert holds an Associate of Science degree from West Valley College.

Amer S. Deeba has served as our Chief Marketing Officer since January 2007. Mr. Deeba joined us in 2001 and has held various positions with us since that time, including Vice President, Product

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Marketing and Vice President, Strategic Alliances, before assuming his current position. From April 1999 until February 2000, Mr. Deeba served as Director of Product Management at Signio until its acquisition by VeriSign, and from February 2000 until June 2001 he held various positions at VeriSign, including General Manager of the Payment Division. Mr. Deeba holds a Bachelor of Engineering degree from the American University of Beirut and a Master of Science degree from Santa Clara University.

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 IntelPeer, 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.

Sumedh S. Thakar has served as our Vice President, Engineering since December 2010. 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, before assuming his current position. Mr. Thakar holds a Bachelor of Science degree from the University of Pune, India.

John N. Wilson has served as our Executive Vice President, Worldwide Field Operations since October 2010. From September 2009 to October 2010, Mr. Wilson served as Vice President of Security Solutions at Verizon Business, a division of Verizon Communications Inc. From October 2008 to September 2009, Mr. Wilson served as Vice President of Worldwide Sales at GFI Software Ltd., a security software company. From January 2005 to October 2008, Mr. Wilson held various positions with us, including Vice President, United States Field Operations. Mr. Wilson holds a Bachelor of Science degree from the United States Military Academy at West Point and a Master of Business Administration degree from Fordham University.

Non-Employee 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 Sophos plc and previously served on the board of directors of ArcSight, Inc. until it was acquired by Hewlett-Packard Company in September 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.

Donald R. Dixon has served as a director of our company since 2000. Since 1993, Mr. Dixon has been a co-founder and managing director of Trident Capital. Since 2008, Mr. Dixon has served on the board of directors of XATA Corporation. Mr. Dixon also currently serves on the boards of directors of several private companies. Mr. Dixon holds a Bachelor of Science degree from Princeton University and a Master of Business Administration degree from the Stanford Graduate School of Business.

We believe that Mr. Dixon possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as a director of technology companies, his background in the venture capital industry and his perspective as a representative of one of our significant stockholders.

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Jeffrey P. Hank has served as a director of our company since January 2010. From September 1994 until June 2002, Mr. Hank was an audit partner at Arthur Anderson LLP. From June 2002 until September 2003, Mr. Hank was an audit partner at KPMG LLP. Since June 2005, Mr. Hank has been the Vice President and Corporate Controller of Intuit, Inc. 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.

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 Enterprises LLC. Since February 2010, Gen. Pace has 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. 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 background in public service.

Yves B. Sisteron has served as a director of our company since November 2003. Since 2000, Mr. Sisteron has been a Managing Partner and co-founder of GRP Partners, a private investment firm. Mr. Sisteron currently serves on the boards of directors of several private companies. Mr. Sisteron holds a Juris Doctor degree and a Master of Laws degree from the University of Law (Lyon) and a Master of Laws degree from the New York University School of Law.

We believe that Mr. Sisteron possesses specific attributes that qualify him to serve as a member of our board of directors, including his experience as a director of technology companies, his background in the venture capital industry and his perspective as a representative of one of our significant stockholders.

Codes of Business Conduct and Ethics

Prior to the completion of this offering, our board of directors will adopt 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.

Board of Directors

Our business and affairs are managed under the direction of our board of directors. The number of directors will be fixed by our board of directors, subject to the terms of our amended and restated certificate of incorporation and amended and restated bylaws that will become effective immediately prior to the completion of this offering. Upon the completion of this offering, our board of directors will consist of _____ directors, of whom will qualify as "independent" under the _____ listing standards.

In accordance with our amended and restated certificate of incorporation and our amended and restated bylaws, upon the completion of this offering our board of directors will be divided into three

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classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Our directors will be divided among the three classes as follows:

- the Class I directors will be Ms. Bergeron and Mr. Sisteron, and their terms will expire at the annual meeting of stockholders to be held in 2013;
- the Class II directors will be Mr. Dixon and Gen. Pace, and their terms will expire at the annual meeting of stockholders to be held in 2014; and
- the Class III directors will be Mr. Courtot and Mr. Hank, and their terms will expire at the annual meeting of stockholders to be held in 2015.

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.

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. Dixon, Mr. Hank, Gen. Pace and Mr. Sisteron 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 . 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 by each non-employee director and the transactions involving them described in the section titled "Certain Relationships and Related Party Transactions."

Lead Independent Director

Our board of directors has appointed Mr. Dixon to serve as our lead independent director. As lead independent director, Mr. Dixon will preside over periodic meetings of our independent directors, serve as a liaison between our Chairman and the independent directors and perform such additional duties as our board of directors may otherwise determine and delegate.

Committees of the Board of Directors

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

Audit Committee

Our audit committee consists of Ms. Bergeron, Mr. Hank and Mr. Sisteron, with Mr. Hank serving as Chairman. The composition of our audit committee meets the requirements for independence under current listing standards and SEC rules and regulations. Each member of our audit committee meets the financial literacy requirements of listing standards. In addition, our board of directors has determined that Mr. Hank is an audit committee financial expert within the meaning of Item 407(d)

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of Regulation S-K under the Securities Act of 1933, as amended, or the Securities Act. Our audit committee will, among other things:

- select a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- help to ensure the independence and performance of the independent registered public accounting firm;
- discuss the scope and results of the audit with the independent registered public accounting firm, and review, with management and the independent accountants, our interim and year-end operating results;
- develop procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- review our policies on risk assessment and risk management;
- review related party transactions;
- obtain and review 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
- approve (or, as permitted, pre-approve) 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 will operate under a written charter, to be effective immediately prior to the completion of this offering, that satisfies the applicable rules of the SEC and the listing standards of

Compensation Committee

Our compensation committee consists of Ms. Bergeron and Mr. Dixon, with Mr. Dixon serving as Chairman. The composition of our compensation committee meets the requirements for independence under current listing standards and SEC rules and regulations. Each member of the compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. The purpose of our compensation committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. Our compensation committee will, among other things:

- review, approve and determine, or make recommendations to our board of directors regarding, the compensation of our executive officers;
- administer our stock and equity incentive plans;
- review and approve and make recommendations to our board of directors regarding incentive compensation and equity plans; and
- establish and review general policies relating to compensation and benefits of our employees.

Our compensation committee will operate under a written charter, to be effective immediately prior to the completion of this offering, that satisfies the applicable rules of the SEC and the listing standards of

Nominating and Governance Committee

Our nominating and governance committee consists of Gen. Pace and Mr. Sisteron, with Mr. Sisteron serving as Chairman. The composition of our nominating and governance committee meets the requirements for independence under current listing standards and SEC rules and regulations. Our nominating and governance committee will, among other things:

- identify, evaluate and select, or make recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;
- evaluate the performance of our board of directors and of individual directors;
- consider and make recommendations to our board of directors regarding the composition of our board of directors and its committees;
- review developments in corporate governance practices;
- evaluate the adequacy of our corporate governance practices and reporting; and
- develop and make recommendations to our board of directors regarding corporate governance guidelines and matters.

Our nominating and governance committee will operate under a written charter, to be effective immediately prior to the completion of this offering, that satisfies the applicable rules of the SEC and the listing standards of .

Compensation Committee Interlocks and Insider Participation

None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Non-Employee Director Compensation

Prior to this offering, we had not implemented a formal policy with respect to compensation payable to our non-employee directors for service as directors. From time to time, we have granted stock options to our non-employee directors for their service on our board of directors. We have not paid cash compensation to any of our non-employee directors. We do, however, reimburse our directors for expenses associated with attending meetings of our board and meetings of committees of our board.

The following table provides information regarding stock options granted to certain of our non-employee directors during 2011. We did not pay cash or any other compensation to our non-employee directors during 2011. Directors who are also our employees receive no additional compensation for their service as a director. During 2011, one director, Mr. Courtot, our Chairman, President and Chief Executive Officer, was an employee. Mr. Courtot's compensation is discussed in the section titled "Executive Compensation."

2011 Director Compensation Table

| <u>Name</u> | <u>Option Awards (\$)⁽¹⁾</u> | <u>Total (\$)</u> |
|-----------------------------|-----------------------------------------|-------------------|
| Sandra E. Bergeron | \$51,075 ⁽²⁾ | \$51,075 |
| Donald R. Dixon | — | — |
| Jeffrey P. Hank | — | — |
| General Peter Pace | — | — |
| Alex Pinchev ⁽³⁾ | 51,075 ⁽⁴⁾ | 51,075 |
| Yves B. Sisteron | — | — |

⁽¹⁾ The dollar amounts in this column represent the compensation cost for the year ended December 31, 2011 of stock option awards granted in 2011. These amounts have been calculated in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718, using the Black-Scholes option-pricing model. 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 Note 7, "Employee Stock and Benefit Plans" to our consolidated financial statements included elsewhere in this prospectus.

⁽²⁾ Ms. Bergeron was granted a stock option to purchase 225,000 shares of common stock pursuant to our 2000 Plan. The shares subject to the option vest over 18 months in equal monthly installments. Ms. Bergeron has exercised these options.

⁽³⁾ Mr. Pinchev resigned as a member of our board of directors in June 2012.

⁽⁴⁾ Mr. Pinchev was granted a stock option to purchase 225,000 shares of common stock pursuant to our 2000 Plan. The shares subject to the option vest over 18 months in equal monthly installments. Mr. Pinchev has exercised these options.

On April 30, 2012, Gen. Pace was granted a stock option covering 225,000 shares of common stock with a vesting commencement date of May 18, 2012 and an exercise price per share of \$0.67. This option is scheduled to vest, subject to Gen. Pace's continued service to us, as to 1/18th of the total shares on each monthly anniversary of the vesting commencement date. This option was granted pursuant to our 2000 Plan and an individual stock option agreement.

On June 6, 2012, Ms. Bergeron was granted a stock option covering 225,000 shares of common stock with a vesting commencement date of July 1, 2012 and an exercise price per share of \$0.89. This option is scheduled to vest, subject to Ms. Bergeron's continued service to us, as to 1/18th of the total shares on each monthly anniversary of the vesting commencement date. This option was granted pursuant to our 2000 Plan and an individual stock option agreement.

Following the completion of this offering, we intend to implement a formal policy pursuant to which our non-employee directors will be eligible to receive equity awards and annual cash retainers as compensation for service on our board of directors and committees of our board of directors. Under this policy, we intend to grant non-employee directors an annual stock option grant having a Black-Scholes value on the date of grant equal to the fair market value of such option on the date of grant. We intend that the date of grant for these stock options will be _____ of each year, beginning _____.

EXECUTIVE COMPENSATION**2011 Summary Compensation Table**

The following table provides information regarding the compensation of our named executive officers during 2011.

| <u>Name and Principal Position</u> | <u>Year</u> | <u>Salary (\$)</u> | <u>Option Awards (\$)⁽¹⁾</u> | <u>Non-Equity Incentive Plan Compensation (\$)</u> | <u>Total (\$)</u> |
|------------------------------------------------------------------------|-------------|--------------------|-----------------------------------------|----------------------------------------------------|-------------------|
| Philippe F. Courtot Chairman, President and Chief Executive Officer | 2011 | \$300,000 | \$ — | \$ 103,500 | \$403,500 |
| Donald C. McCauley Chief Financial Officer | 2011 | 300,000 | 340,500 ⁽²⁾ | 77,625 | 718,125 |
| Peter Albert ⁽³⁾ Vice President, Operations | 2011 | 143,205 | 350,859 ⁽⁴⁾ | 42,692 | 536,757 |

⁽¹⁾ The dollar amounts in this column represent the compensation cost for 2011 of stock option awards granted in 2011. These amounts have been calculated in accordance with FASB ASC Topic 718, using the Black-Scholes option-pricing model. 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 Note 7, "Employee Stock and Benefit Plans" to our consolidated financial statements included elsewhere in this prospectus.

⁽²⁾ Mr. McCauley's option vests over two years in equal monthly installments. The option is subject to an early exercise right and may be exercised in full prior to the vesting of the shares underlying the option.

⁽³⁾ Mr. Albert became our Vice President, Operations in April 2011.

⁽⁴⁾ Mr. Albert's option vests over four years in equal monthly installments. The option is subject to an early exercise right and may be exercised in full prior to the vesting of the shares underlying the option.

Non-Equity Incentive Plan Compensation

We provide our named executive officers with an opportunity to receive quarterly formula-based incentive amounts.

2011 Non-Equity Incentive Payments

For 2011, the target incentive amounts and the aggregate annual payments (paid on a quarterly basis) earned by our named executive officers under our 2011 Corporate Bonus Plan were the following:

| <u>Named Executive Officer</u> | <u>Target Award Opportunity</u> | <u>Actual Award Amount</u> |
|--------------------------------|---------------------------------|----------------------------|
| Philippe F. Courtot | \$ 120,000 | \$ 103,500 |
| Donald C. McCauley | 90,000 | 77,625 |
| Peter Albert | 60,000 | 42,962 |

The amount of the incentive payment was determined based on the growth in our bookings for the applicable quarter over the same quarter of the prior year. This bookings metric is calculated as the sum of the amounts of all new, renewal and upsell subscriptions purchased by customers and channel partners in each quarter. A named executive officer's quarterly incentive payment is paid at 100% of target if the bookings metric for the applicable quarter equals or exceeds a certain target threshold as compared to the same quarter in the prior year. The quarterly incentive amount scales down to 25% of target if the bookings metric for the applicable quarter equals a minimum target threshold as compared to the same quarter in the prior year, and is zero if such minimum target threshold is not reached. To

be eligible for a quarterly incentive payment under our 2011 Corporate Bonus Plan, an individual must be employed as of the last day of the quarter.

Executive Employment Arrangements

Philippe F. Courtot

We entered into an offer letter agreement on December 7, 2000 with Philippe F. Courtot, our Chairman, President and Chief Executive Officer. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Courtot's current annual base salary is \$300,000 and he is eligible for annual incentive payments equal to 40% of his base salary pursuant to our 2012 Corporate Bonus Plan.

Mr. Courtot holds one stock option that remains partially unvested. This option was granted on December 3, 2009 covering 10,532,354 shares with a vesting commencement date of January 25, 2011 and an exercise price per share of \$0.38. This option is scheduled to vest, subject to Mr. Courtot's continued employment, as to 1/48th of the total shares on each monthly anniversary of the vesting commencement date and is early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares upon termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. This option was granted pursuant to our 2000 Plan and an individual stock option agreement thereunder.

Mr. Courtot's option provides that if within 12 months following a "change of control" (as defined in his stock option grant notice), his employment is terminated without "cause" (as defined in his stock option grant notice) or he resigns for "good reason" (as defined in his stock option grant notice), then, in each case, subject to the execution of a release of claims, he receives 100% vesting acceleration of such option. In addition, as described further below under "—Employee Benefit and Stock Plans—2000 Equity Incentive Plan, as amended," (i) upon a change in control transaction where the acquiring entity does not assume or substitute for our outstanding stock options, and (ii) after the effective date of this offering, upon an acquisition by any person of securities representing at least 50% of the combined voting power entitled to vote for directors, Mr. Courtot's outstanding and unvested option fully accelerates, in each case, subject to Mr. Courtot's continuous employment through the applicable transaction.

Donald C. McCauley

We entered into an offer letter agreement on February 7, 2006 with Donald C. McCauley, our Chief Financial Officer. The offer letter agreement has no specific term and constitutes at-will employment. Mr. McCauley's current annual base salary is \$300,000 and he is eligible for annual incentive payments equal to 30% of his base salary pursuant to our 2012 Corporate Bonus Plan. Mr. McCauley's offer letter provides that if his employment is terminated without cause, then, subject to execution of a release of claims, Mr. McCauley receives severance equal to six months of his then-current base salary and six months of COBRA coverage.

Mr. McCauley holds one stock option that remains partially unvested. This option was granted on February 3, 2011 covering 1,500,000 shares with a vesting commencement date of February 29, 2012 and an exercise price per share of \$0.44. This option is scheduled to vest, subject to Mr. McCauley's continued employment, as to 1/24th of the total shares on each monthly anniversary of the option's vesting commencement date and is early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares upon termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. These options were granted pursuant to our 2000 Plan and an individual stock option agreement thereunder.

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Mr. McCauley's option grant provides that if he is our employee, or an employee of a parent or subsidiary of ours, on the date of the consummation of an "acquisition" (as defined in his stock option grant notice), he receives 100% vesting acceleration of such option. In addition, as described further below under "—Employee Benefit and Stock Plans—2000 Equity Incentive Plan, as amended," (i) upon a change in control transaction where the acquiring entity does not assume or substitute for our outstanding stock options, and (ii) after the effective date of this offering, upon an acquisition by any person of securities representing at least 50% of the combined voting power entitled to vote for directors, Mr. McCauley's outstanding and unvested options fully accelerate, in each case, subject to Mr. McCauley's continuous employment through the applicable transaction.

Peter Albert

We entered into an offer letter agreement on April 14, 2011 with Peter Albert, our Vice President, Operations. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Albert's current annual base salary is \$200,000 and he is eligible for annual incentive payments equal to 30% of his base salary pursuant to our 2012 Corporate Bonus Plan.

Mr. Albert holds one stock option that remains partially unvested. This option was granted on April 28, 2011 covering 1,423,942 shares with a vesting commencement date of April 14, 2011 and an exercise price per share of \$0.48. This option is scheduled to vest, subject to Mr. Albert's continued employment, as to 1/48th of the total shares on each monthly anniversary of the vesting commencement date and is early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares upon termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. This option was granted pursuant to our 2000 Plan and an individual stock option agreement thereunder.

Mr. Albert's option grant provides that if within 12 months following the consummation of an "acquisition" (as defined in his stock option grant notice), his employment is terminated without "cause" (as defined in his stock option grant notice) or he resigns for "good reason" (as defined in his stock option grant notice), then, in each case, subject to the execution of a release of claims, he receives 50% vesting acceleration of the then unvested shares subject to the option. In addition, as described further below under "—Employee Benefit and Stock Plans—2000 Equity Incentive Plan, as amended," (i) upon a change in control transaction where the acquiring entity does not assume or substitute for stock options, and (ii) after the effective date of this offering, upon an acquisition by any person of securities representing at least 50% of the combined voting power entitled to vote for directors, Mr. Albert's outstanding and unvested options fully accelerate, in each case, subject to Mr. Albert's continuous employment through the applicable transaction.

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Outstanding Equity Awards at Fiscal Year-End

The following table presents information concerning equity awards held by our named executive officers as of December 31, 2011.

| Name | Vesting Commencement Date | Option Awards | | Option Exercise Price (\$) | Option Expiration Date |
|----------------------|---------------------------|--------------------------------------------------------------------|---------------|----------------------------|------------------------|
| | | Number of Securities Underlying Unexercised Options ⁽¹⁾ | | | |
| | | Exercisable | Unexercisable | | |
| Philippe F. Courtot. | 1/25/2007 | 9,357,822 | — | \$ 0.19 | 1/24/2017 |
| | 1/25/2011 | 10,532,354 ⁽²⁾ | — | 0.38 | 12/2/2019 |
| Donald C. McCauley | 2/28/2006 | 918,381 | — | 0.14 | 6/29/2016 |
| | 2/28/2010 | 1,500,000 | — | 0.28 | 5/7/2019 |
| | 2/29/2012 | 1,500,000 ⁽³⁾ | — | 0.44 | 2/2/2021 |
| Peter Albert | 4/14/2011 | 1,423,942 ⁽⁴⁾ | — | 0.48 | 4/27/2021 |

⁽¹⁾ The options listed are subject to an early exercise right and may be exercised in full prior to vesting of the shares underlying the option.

⁽²⁾ 1/48th of the total number of shares subject to this stock option vest monthly starting on the one month anniversary of the vesting commencement date. 100% of the unvested options will accelerate if, within 12 months following a change of control, Mr. Courtot resigns from his employment for good reason or is terminated without cause.

⁽³⁾ 1/24th of the total number of shares subject to this stock option vest monthly starting on the one month anniversary of the vesting commencement date. 100% of the unvested shares subject to the option will accelerate upon an acquisition.

⁽⁴⁾ 1/48th of the total number of shares subject to this stock option vest monthly starting on the one month anniversary of the vesting commencement date. 50% of the unvested shares subject to the option will accelerate if, within 12 months following an acquisition, Mr. Albert resigns from his employment for good reason or is terminated without cause.

Employee Benefit and Stock Plans

2012 Equity Incentive Plan

Prior to the completion of this offering, our board of directors intends to adopt our 2012 Plan and we expect our stockholders to approve our 2012 Plan. Subject to stockholder approval, our 2012 Plan will be effective upon the later to occur of its adoption by our board of directors or one business day prior to the effective date of the registration statement of which this prospectus forms a part. Our 2012 Plan will provide for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and any parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Authorized Shares

A total of _____ shares of our common stock are expected to be reserved for issuance pursuant to our 2012 Plan, of which no awards are issued and outstanding. In addition, the shares to be reserved for issuance under our 2012 Plan will also include (a) those shares reserved but unissued under our 2000 Plan and (b) shares returned to our 2000 Plan as the result of expiration or termination of awards (provided that the maximum number of shares that may be added to our 2012 Plan pursuant to (a) and (b) is _____ shares). The number of shares available for issuance under our 2012 Plan will also include an annual increase on the first day of each year beginning in 2014, equal to the least of:

• _____ shares;

• _____ % of the outstanding shares of common stock as of the last day of our immediately preceding year; or

• _____ such other amount as our board of directors may determine.

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Plan Administration

Our board of directors or one or more committees appointed by our board of directors will administer our 2012 Plan. We anticipate that the compensation committee of our board of directors will administer our 2012 Plan. The compensation committee consists of two “outside directors” within the meaning of Section 162(m) of the Code, or Section 162(m), so that awards intended to qualify as “performance-based compensation” within the meaning of Section 162(m) may remain eligible to qualify. In addition, if we determine it is desirable to qualify transactions under our 2012 Plan as exempt under Rule 16b-3 of the Exchange Act, or Rule 16b-3, such transactions will be structured to satisfy the requirements for exemption under Rule 16b-3. Subject to the provisions of our 2012 Plan, the administrator will have the power to administer the plan, including but not limited to the power to interpret the terms of our 2012 Plan and awards granted under it, to create, amend and revoke rules relating to the administration of our 2012 Plan, including creating sub-plans, and to determine the terms of the awards, including the exercise price, the number of shares subject to each such award, the exercisability of the awards, and the form of consideration, if any, payable upon exercise. The administrator will also have the authority to amend existing awards to reduce or increase their exercise price, to allow participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator, and to institute an exchange program by which outstanding awards may be surrendered in exchange for awards of the same type which may have a higher or lower exercise price or different terms, awards of a different type and/or cash.

Stock Options

Our 2012 Plan will provide for the granting of stock options. Our 2012 Plan will provide that the exercise price of options granted there under must at least be equal to the fair market value of our common stock on the date of grant. Our 2012 Plan will also provide that the term of an incentive stock option may not exceed 10 years, except that with respect to any participant who owns more than 10% of the voting power of all classes of our outstanding stock, the term must not exceed 5 years and the exercise price must equal at least 110% of the fair market value on the grant date. The administrator will determine the methods of payment of the exercise price of an option, which may include cash, shares or other property acceptable to the administrator, as well as other types of consideration permitted by applicable law. Our 2012 Plan will also provide that after the termination of service of an employee, director or consultant, he or she may exercise his or her option for the period of time stated in his or her option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for 12 months. In all other cases, the option will generally remain exercisable for three months following the termination of service. However, under our 2012 Plan, in no event may an option be exercised later than the expiration of its term. Subject to the provisions of our 2012 Plan, the administrator determines the other terms of options.

Stock Appreciation Rights

Our 2012 Plan will provide for the granting of stock appreciation rights. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. Stock appreciation rights may not have a term exceeding 10 years. After the termination of service of an employee, director or consultant, he or she may exercise his or her stock appreciation right for the period of time stated in his or her agreement. However, in no event may a stock appreciation right be exercised later than the expiration of its term. Subject to the provisions of our 2012 Plan, the administrator determines the other terms of stock appreciation rights, including when such rights become exercisable and whether to pay any increased appreciation in cash or with shares of our common stock, or a combination thereof, except that the per share exercise price for the shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant.

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Restricted Stock

Our 2012 Plan will provide for the granting of restricted stock. Restricted stock awards are grants of shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator will determine the number of shares of restricted stock granted to any employee, director or consultant and, subject to the provisions of our 2012 Plan, will determine the terms and conditions of such awards. The administrator may impose whatever conditions to vesting it determines to be appropriate (for example, the administrator may set restrictions based on the achievement of specific performance goals or continued service to us); provided, however, that the administrator, in its sole discretion, may accelerate the time at which any restrictions will lapse or be removed. Recipients of restricted stock awards generally will have voting and dividend rights with respect to such shares upon grant without regard to vesting, unless the administrator provides otherwise. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units

Our 2012 Plan will provide for the granting of restricted stock units. Restricted stock units are bookkeeping entries representing an amount equal to the fair market value of one share of our common stock. Subject to the provisions of our 2012 Plan, the administrator determines the terms and conditions of restricted stock units, including the vesting criteria (which may include accomplishing specified performance criteria or continued service to us) and the form and timing of payment. Notwithstanding the foregoing, the administrator, in its sole discretion may accelerate the time at which any restrictions will lapse or be removed.

Performance Units and Performance Shares

Our 2012 Plan will provide for the granting of performance units and performance shares. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals or other vesting criteria in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. After the grant of a performance unit or performance share, the administrator, in its sole discretion, may reduce or waive any performance criteria or other vesting provisions for such performance units or performance shares. Performance units shall have an initial dollar value established by the administrator prior to the grant date. Performance shares shall have an initial value equal to the fair market value of our common stock on the grant date. The administrator, in its sole discretion, may pay earned performance units or performance shares in the form of cash, shares or in some combination thereof.

Outside Directors

Our 2012 Plan will provide that all non-employee directors will be eligible to receive all types of awards (except for incentive stock options) under our 2012 Plan. In connection with this offering, we intend to implement a formal policy pursuant to which our non-employee directors will be eligible to receive equity awards under our 2012 Plan.

Non-Transferability of Awards

Unless the administrator provides otherwise, our 2012 Plan generally will not allow for the transfer of awards and only the recipient of an award may exercise an award during his or her lifetime.

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Certain Adjustments

In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under our 2012 Plan, the administrator will adjust the number and class of shares that may be delivered under our 2012 Plan and/or the number, class and price of shares covered by each outstanding award, and the numerical share limits set forth in our 2012 Plan. In the event of our proposed liquidation or dissolution, the administrator will notify participants as soon as practicable and all awards will terminate immediately prior to the consummation of such proposed transaction.

Merger or Change in Control

Our 2012 Plan will provide that in the event of a merger or change in control, as defined under our 2012 Plan, each outstanding award will be treated as the administrator determines, except that if a successor corporation or its parent or subsidiary does not assume or substitute an equivalent award for any outstanding award, then such award will fully vest, all restrictions on such award will lapse, all performance goals or other vesting criteria applicable to such award will be deemed achieved at 100% of target levels and such award will become fully exercisable, if applicable, for a specified period prior to the transaction. The award will then terminate upon the expiration of the specified period of time. If the service of an outside director is terminated on or following a change of control, other than pursuant to a voluntary resignation, his or her options, restricted stock units and stock appreciation rights, if any, will vest fully and become immediately exercisable, all restrictions on his or her restricted stock will lapse, and all performance goals or other vesting requirements for his or her performance shares and units will be deemed achieved at 100% of target levels, and all other terms and conditions met.

Amendments; Terminations

The administrator will have the authority to amend, suspend or terminate our 2012 Plan provided such action does not impair the existing rights of any participant. Our 2012 Plan will automatically terminate in 2022, unless we terminate it sooner.

2000 Equity Incentive Plan, as amended

Our board of directors adopted and approved our 2000 Plan in February 2000 and our stockholders approved it in February 2000. The term of our 2000 Plan was extended by our board of directors and our stockholders on January 29, 2010. Our 2000 Plan was most recently amended on June 6, 2012.

Authorized Shares

Our 2000 Plan will be terminated in connection with this offering and, accordingly, no shares will be available for issuance under this plan after the completion of this offering. Our 2000 Plan will continue to govern outstanding awards granted thereunder. An aggregate of 119,878,566 shares of our common stock have been reserved for issuance under our 2000 Plan. Our 2000 Plan provides for the grant of incentive stock options, nonstatutory stock options, stock bonuses and rights to acquire restricted stock. As of March 31, 2012, options to purchase 63,735,536 shares of our common stock remained outstanding under our 2000 Plan and 6,951,509 shares of our common stock were reserved for future issuance.

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Plan Administration

Our board of directors or one or more committees comprised of one or more members of our board of directors appointed by our board of directors administers our 2000 Plan. Our compensation committee administers our 2000 Plan. The compensation committee consists of two "outside directors" within the meaning of Section 162(m) of the Code, and two "non-employee directors" within the meaning of Rule 16b-3, and, within the limits under our 2000 Plan, the board of directors or the compensation committee may delegate administrative authority under our 2000 Plan. Subject to the provisions of our 2000 Plan, the administrator has the power to administer the plan, including but not limited to, the power to interpret the terms of our 2000 Plan and awards granted under it, create, amend and revoke rules for the administration of our 2000 Plan and to determine which persons receive awards, when and how awards will be granted, what type of awards will be granted, the provisions of each award, and the number of shares awarded to each person. The administrator may correct any defect, omission or inconsistency in our 2000 Plan or in any award agreement. The administrator also has the authority to amend existing awards to reduce or increase their exercise price, to allow participants the opportunity to transfer outstanding awards to a financial institution or other person or entity selected by the administrator and to institute an exchange program by which outstanding awards may be surrendered in exchange for awards of the same type which may have with a higher or lower exercise price or different terms, awards of a different type and/or cash.

Stock Options

Stock options may be granted under our 2000 Plan. The exercise price per share of all options must equal at least 100% of the fair market value per share of our common stock on the date of grant. The term of an option may not exceed 10 years. An incentive stock option held by a participant who owns more than 10% of the total combined voting power of all classes of our stock, or that of any parent or subsidiary corporations, may not have a term in excess of five years and must have an exercise price of at least 110% of the fair market value per share of our common stock on the date of grant. The purchase price of shares acquired on exercise of an option will be paid, to the extent permitted by applicable laws, either in cash or, at the discretion of the administrator, in other forms of legal consideration that may be acceptable to the administrator. After the termination of service of an employee, director or consultant, the participant may exercise his or her option, to the extent vested as of such date of termination, for three months following termination (or such longer or shorter period specified in an option agreement, which period will not be less than 30 days prior to the effective date of this offering). If termination is due to disability or death, the option will remain exercisable, to the extent vested as of such date of termination, for 12 months in the case of disability and 18 months in the case of death (or, in each case, such longer or shorter period specified in a stock option agreement). However, in no event may an option be exercised after its expiration. Subject to the provisions of our 2000 Plan, the administrator determines the other terms of options.

Stock Bonuses

Stock bonuses may be granted under our 2000 Plan. Stock bonus awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. A stock bonus may be awarded in consideration for past services actually rendered. Shares subject to stock bonuses will vest, and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator and set forth in a stock bonus agreement.

Restricted Stock

Restricted stock may be granted under our 2000 Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeiture provisions. Shares of restricted stock will vest, and the restrictions on such

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shares will lapse, in accordance with terms and conditions established by the administrator and set forth in a restricted stock purchase agreement.

Transferability of Awards

Our 2000 Plan generally does not allow for the transfer of awards and only the recipient of an option may exercise such an award during his or her lifetime. The administrator may allow nonstatutory stock options to be transferrable to the extent provided in the option agreement, and prior to the completion of this offering, to the extent permitted by applicable laws.

Capitalization Adjustment

In the event of certain changes in our capitalization, our 2000 Plan will be appropriately adjusted in the class(es) and maximum number of shares subject to our 2000 Plan and any maximum share limitations, and the outstanding awards will be adjusted in the class(es) and number of securities and price per share subject to such outstanding awards. In the event of our proposed liquidation or dissolution, all outstanding awards terminate immediately prior to such event.

Change in Control

Our 2000 Plan provides that in the event of change in control through the sale, lease or other disposition of all or substantially all of our assets, our consolidation or merger or other corporate reorganization in which our shareholders immediately before the transaction own less than 50% of the outstanding voting power of the surviving entity (or its parent) following the transaction, or a transaction or series of transactions in which in excess of 50% of our outstanding voting power is transferred, as described in our 2000 Plan, each outstanding award will be assumed or substituted by the surviving or acquiring entity for an equivalent award. In the event that awards are not assumed or substituted, then with respect to awards held by participants whose continuous service with us has not terminated, the vesting of such awards (and, if applicable, the time during which such awards may be exercised) will be accelerated in full, and the awards will terminate if not exercised (if applicable) at or prior to a time established by the administrator. With respect to any other awards outstanding under our 2000 Plan, such awards will terminate if not exercised (if applicable) at or prior to such event. Our 2000 Plan also provides that after the listing of our common stock on an exchange, in the event of an acquisition of the beneficial ownership of securities representing at least 50% of the combined voting power entitled to vote on directors, then with respect to awards held by participants whose continuous service with us has not terminated, the vesting of such awards (and, if applicable, the time during which such awards may be exercised) will be accelerated in full.

Amendments; Terminations

The administrator may amend, suspend or terminate our 2000 Plan at any time, provided that such action will not impair the existing rights of any participant unless such participant consents in writing. As noted above, in connection with this offering, our 2000 Plan will be terminated and no further awards will be granted thereunder. All outstanding awards will continue to be governed by their existing terms.

2012 Corporate Bonus Plan

We sponsor and maintain a 2012 Corporate Bonus Plan, or our 2012 Bonus Plan, for the benefit of our officers and other employees that are designated as participants in our 2012 Bonus Plan. Our 2012 Bonus Plan is effective for the 2012 calendar year. Each calendar quarter is a separate bonus period. The 2012 Bonus Plan provides for quarterly formula-based incentive payments. The amount of each incentive payment is determined based on the growth in our bookings for the applicable quarter over the same quarter of the prior year. This bookings metric is calculated as the sum of the amounts

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of all new, renewal and upsell subscriptions purchased by customers and channel partners in each quarter. A participant's quarterly bonus is paid at 100% of target if the bookings metric for the applicable quarter equals or exceeds a certain target threshold as compared to the same quarter in the prior year, and is zero if such minimum target threshold is not reached. The quarterly bonus scales down to 25% of target if the bookings metric for the applicable quarter equals a minimum target threshold as compared to the same quarter in the prior year. To be eligible for a quarterly payment under our 2012 Corporate Bonus Plan, an individual must be employed as of the last day of the quarter.

401(k) Plan

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. In 2011 and for the three months ended March 31, 2012, we made no matching contributions into the 401(k) plan. 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 Sections 401(a) and 501(a) of 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.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In addition to the compensation arrangements and indemnification arrangements discussed above in the sections titled "Management" and "Executive Compensation" and the registration rights described in the section titled "Description of Capital Stock—Registration Rights," the following is a description of each transaction since January 1, 2009 and each currently proposed transaction in which:

- we have been or are to be a participant;
- the amount involved exceeded or exceeds \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our capital stock, or any immediate family member of or person sharing the household with any of these individuals, had or will have a direct or indirect material interest.

Investor Rights Agreement

On July 12, 2005, we entered into an Amended and Restated Investor Rights Agreement with the holders of our outstanding preferred stock, including entities with which certain of our directors are affiliated. As of March 31, 2012, the holders of 182,320,095 shares of our common stock, including our common stock issuable after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock into common stock, are entitled to rights with respect to the registration of their shares following this offering under the Securities Act. See the section titled "Description of Capital Stock—Registration Rights" for additional information.

Right of First Refusal and Co-Sale Agreement

We are a party to a right of first refusal and co-sale agreement which imposes restrictions on the transfer of our capital stock. Upon the completion of this offering, the right of first refusal and co-sale agreement will terminate and the restrictions on the transfer of our capital stock set forth in the agreement will no longer apply.

Voting Agreement

We are a party to a voting agreement under which certain holders of our capital stock, including entities with which certain of our directors are affiliated, have agreed to vote in a certain way on certain matters, including with respect to the election of directors. Upon the completion of this offering, the voting agreement will terminate and none of our stockholders will have any special rights regarding the election or designation of members of our board of directors or the voting of capital stock of the company.

Secured Promissory Notes

On July 30, 2009, we repaid \$1,496,925 to each of Mai Courtot, the wife of our Chairman, President and Chief Executive Officer, Philippe F. Courtot, and Trident Capital, Inc. and certain of its affiliates, entities affiliated with Donald R. Dixon, a member of our board of directors, pursuant to secured promissory notes each dated as of July 12, 2005. These secured promissory notes bore interest at a rate of 7.75% per annum.

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The following table summarizes the repayments to Ms. Courtot and Trident Capital, Inc. and certain of its affiliates:

| <u>Name</u> | <u>Aggregate Repayment</u> |
|--------------------------------------|----------------------------|
| Mai Courtot | \$ 1,496,925 |
| Trident Capital, Inc. ⁽¹⁾ | \$ 1,496,925 |

⁽¹⁾ Includes \$7,437 repaid to Trident Capital Fund-V Affiliates Fund (Q), L.P., \$7,794 repaid to Trident Capital Fund-V Affiliates Fund, L.P., \$101,880 repaid to Trident Capital Parallel Fund-V, C.V., \$38,814 repaid to Trident Capital Fund-V Principals Fund, L.P. and \$1,341,000 repaid to Trident Capital Fund-V, L.P.

Warrant Exercises

In March 2011, Mai Courtot, the wife of our Chairman, President and Chief Executive Officer, Philippe F. Courtot, elected to purchase 40,939 shares of our Series C preferred stock at a price of \$0.38 per share pursuant to a warrant dated May 19, 2006 for a total purchase price of \$15,385 and elected to purchase 307,545 shares of our Series C preferred stock at a purchase price of \$0.37 per share pursuant to a warrant dated July 12, 2005 for a total purchase price of \$112,500.

Offer Letter Agreements

In addition to the offer letter agreements discussed in the section titled "Executive Compensation—Executive Employment Agreements," we have entered into offer letter agreements with the following individuals.

Amer S. Deeba

We entered into an offer letter agreement on September 4, 2001 with Amer S. Deeba, our Chief Marketing Officer. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Deeba's current annual base salary is \$200,000 and he is eligible for an annual performance-based compensation payment of 30% of his base salary.

Mr. Deeba holds three stock options that remain partially unvested. These stock options were granted on July 30, 2009 covering 650,000 shares, with a vesting commencement date of June 30, 2010 and an exercise price per share of \$0.28, on November 5, 2010 covering 500,000 shares, with a vesting commencement date of November 5, 2010 and an exercise price per share of \$0.41 and on April 30, 2012 covering 400,000 shares, with a vesting commencement date of April 30, 2012 and an exercise price per share of \$0.67. These options are scheduled to vest, subject to Mr. Deeba's continued employment, as to 1/24th of the total shares on each monthly anniversary of the respective vesting commencement date and are early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares on a termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. These options were granted pursuant to our 2000 Plan and individual stock option agreements.

Sumedh S. Thakar

We entered into an offer letter agreement on January 20, 2003 with Sumedh S. Thakar, our Vice President, Engineering. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Thakar's current annual base salary is \$200,000 and he is eligible for an annual performance-based compensation payment of 30% of his base salary.

Mr. Thakar holds four stock options that remain partially unvested. These stock options were granted on January 28, 2009 covering 50,000 shares with a vesting commencement date of

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December 16, 2008 and an exercise price per share of \$0.28, on May 7, 2010 covering 50,000 shares with a vesting commencement date of December 16, 2009 and an exercise price per share of \$0.41, on February 3, 2011 covering 500,000 shares with a vesting commencement date of December 1, 2010 and an exercise price per share of \$0.44 and on November 4, 2011 covering 200,000 shares with a vesting commencement date of November 4, 2011 and an exercise price per share of \$0.59. These options are scheduled to vest, subject to Mr. Thakar's continued employment, as to 1/48th of the total shares on each monthly anniversary of the respective vesting commencement date and are early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares on a termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. These options were granted pursuant to our 2000 Plan and individual stock option agreements.

John N. Wilson

We entered into an offer letter agreement on August 25, 2010 with John N. Wilson, our Executive Vice President, Worldwide Field Operations. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Wilson's current annual base salary is \$200,000 and he is eligible for quarterly payments of \$43,750 in sales commissions.

Mr. Wilson holds two stock options that remain partially unvested. These stock options were granted on November 5, 2010 covering 1,805,912 shares with a vesting commencement date of October 29, 2010 and an exercise price per share of \$0.41 and on November 4, 2011 covering 200,000 shares with a vesting commencement date of November 4, 2011 and an exercise price per share of \$0.59. These options are scheduled to vest, subject to Mr. Wilson's continued employment, as to 1/36th for the November 5, 2010 grant and 1/48th for the November 4, 2011 grant of the total shares on each monthly anniversary of the respective vesting commencement date and are early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares on a termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. These options were granted pursuant to our 2000 Plan and individual stock option agreements.

Bruce K. Posey

We entered into an offer letter agreement on May 8, 2012 with Bruce K. Posey, our Vice President, General Counsel and Corporate Secretary. The offer letter agreement has no specific term and constitutes at-will employment. Mr. Posey's current annual base salary is \$250,000 and he is eligible for an annual performance-based compensation payment of 30% of his base salary.

Mr. Posey holds one stock option grant that remains unvested. This stock option was granted on June 6, 2012 covering 1,480,932 shares, with a vesting commencement date of May 21, 2012 and an exercise price per share of \$0.89. This option grant is scheduled to vest, subject to Mr. Posey's continued employment, as to 1/48th of the total shares on each monthly anniversary of the vesting commencement date and is early-exercisable as to unvested shares, subject to our right to repurchase any unvested shares on a termination of employment for any reason at a repurchase price per share equal to the lesser of the original purchase price per share or the fair market value per share on the termination of employment date. This option was granted pursuant to our 2000 Plan and an individual stock option agreement.

Other Transactions

We have granted stock options to our executive officers and certain of our directors. See the sections titled "Executive Compensation—2011 Summary Compensation Table" and "Management—2011 Director Compensation Table" for additional information.

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We have entered into change in control arrangements with certain of our executive officers that, among other things, provide for certain severance and change in control benefits. See the section titled “Executive Compensation—Executive Employment Agreements” for additional information.

Other than as described in this section titled “Certain Relationships and Related Party Transactions,” since January 1, 2009, we have not entered into any transactions, nor are there any currently proposed transactions, between us and a related party where the amount involved exceeds, or would exceed, \$120,000, and in which any related person had or will have a direct or indirect material interest. We believe the terms of the transactions described above were comparable to terms we could have obtained in arm’s length dealings with unrelated third parties.

Limitation of Liability and Indemnification of Officers and Directors

We will agree to indemnify our officers and directors for certain matters pursuant to our amended and restated certificate of incorporation and amended and restated bylaws, each of which will become effective upon the completion of this offering, as well as pursuant to indemnification agreements that we will enter into with each of our officers and directors prior to the completion of this offering. See the section titled “Description of Capital Stock—Limitation of Liability and Indemnification of Officers and Directors” for additional information.

Policies and Procedures for Related Party Transactions

Following the completion of this offering, the audit committee will have the primary responsibility for reviewing and approving or disapproving “related party transactions,” which are transactions between us and related persons in which the aggregate amount involved exceeds or may be expected to exceed \$120,000 and in which a related person has or will have a direct or indirect material interest. For purposes of this policy, a related person will be defined as a director, executive officer, nominee for director, or greater than 5% beneficial owner of our common stock, in each case since the beginning of the most recently completed year, and their immediate family members. Our audit committee charter will provide that the audit committee shall review and approve or disapprove any related party transactions. As of the date of this prospectus, we have not adopted any formal standards, policies or procedures governing the review and approval of related party transactions, but we expect that our audit committee will do so in the future.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of March 31, 2012, as adjusted to reflect the shares of common stock to be issued and sold by us in this offering, by:

- each of our executive officers;
- each of our directors;
- all executive officers and directors as a group; and
- each person or group of affiliated persons known by us to be the beneficial owner of more than 5% of our common stock.

We have determined beneficial ownership in accordance with the rules of the SEC. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially own, subject to community property laws where applicable. We have deemed shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of March 31, 2012 to be outstanding and to be beneficially owned by the person holding the option for the purpose of computing the percentage ownership of that person but have not treated them as outstanding for the purpose of computing the percentage ownership of any other person.

We have based percentage ownership of our common stock prior to this offering on 229,442,358 shares of our common stock outstanding as of March 31, 2012, which includes 175,973,235 shares of common stock resulting from the automatic conversion of all outstanding shares of our convertible preferred stock upon the completion of this offering, as if this conversion had occurred as of March 31, 2012. Percentage ownership of our common stock after this offering assumes the sale by us of _____ shares of common stock in this offering.

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Unless otherwise indicated, the address of each beneficial owner listed on the table below is c/o Qualys, Inc., 1600 Bridge Parkway, Redwood City, California 94065.

| Name of Beneficial Owner | Shares Beneficially Owned+ | Percentage of Shares Beneficially Owned | |
|------------------------------------------------------------------------------|----------------------------|-----------------------------------------|----------------|
| | Number | Before Offering | After Offering |
| Executive Officers and Directors: | | | |
| Philippe F. Courtot ⁽¹⁾ | 98,629,233 | 39.56% | |
| Donald C. McCauley ⁽²⁾ | 5,518,381 | 2.36% | |
| Peter Albert ⁽³⁾ | 1,423,942 | * | |
| Sandra E. Bergeron ⁽⁴⁾ | 900,000 | * | |
| Amer S. Deeba ⁽⁵⁾ | 3,076,602 | 1.33% | |
| Donald R. Dixon ⁽⁶⁾ | 62,886,577 | 27.41% | |
| Jeffrey P. Hank ⁽⁷⁾ | 450,000 | * | |
| Gen. Peter Pace | 450,000 | * | |
| Bruce K. Posey† | — | — | |
| Yves B. Sisteron ⁽⁸⁾ | 25,097,227 | 10.94% | |
| Sumedh S. Thakar ⁽⁹⁾ | 993,107 | * | |
| John N. Wilson ⁽¹⁰⁾ | 2,560,912 | 1.11% | |
| All executive officers and directors as a group (12 persons) ⁽¹¹⁾ | 201,985,981 | 77.56% | |
| 5% Stockholders: | | | |
| Entities affiliated with Trident Capital, Inc. ⁽¹²⁾ | 62,886,577 | 27.41% | |
| Entities affiliated with GRP Partners ⁽¹³⁾ | 25,097,227 | 10.94% | |

+ Certain options to purchase shares of our capital stock included in this table are early exercisable, and to the extent such shares are unvested as of a given date, such shares will remain subject to a right of repurchase held by us.

* Represents beneficial ownership of less than 1%.

† Mr. Posey joined us in May 2012.

(1) Consists of 11,882,043 shares of common stock, 66,150,729 shares of common stock issuable upon the conversion of preferred stock and 19,890,176 shares of common stock subject to options exercisable within 60 days of March 31, 2012. In addition, consists of 21,995 shares of common stock and 684,290 shares of common stock issuable upon the conversion of preferred stock held of record by Mai Courtot, Mr. Courtot's spouse.

(2) Consists of 1,600,000 shares of common stock and 3,918,381 shares of common stock subject to options exercisable within 60 days of March 31, 2012.

(3) Consists of 1,423,942 shares of common stock subject to an option exercisable within 60 days of March 31, 2012.

(4) Shares are held in the Bergeron Family Trust DTD 11/15/2004, for which Ms. Bergeron is a trustee.

(5) Consists of 708,326 shares of common stock and 2,368,276 shares of common stock subject to options exercisable within 60 days of March 31, 2012.

(6) Consists of shares listed in footnote 12 below which are held by Trident Capital, Inc. and its affiliated entities. Mr. Dixon, one of our directors, shares voting and investment power with respect to the shares held by Trident Capital and its affiliated entities.

(7) Consists of 450,000 shares of common stock subject to an option exercisable within 60 days of March 31, 2012.

(8) Consists of shares listed in footnote 13 below, which are held by GRP Partners and its affiliated entities. Mr. Sisteron, one of our directors, shares voting and investment power with respect to the shares held by GRP Partners and its affiliates.

(9) Consists of 65,399 shares of common stock and 927,708 shares of common stock subject to options exercisable within 60 days of March 31, 2012.

(10) Consists of 555,000 shares of common stock and 2,005,912 shares of common stock subject to options exercisable within 60 days of March 31, 2012.

(11) Includes 30,984,395 shares subject to options exercisable within 60 days of March 31, 2012.

(12) Consists of 56,393,061 shares of common stock issuable upon the conversion of preferred stock held of record by Trident Capital Fund-V, L.P., a Delaware limited partnership, 4,284,370 shares of common stock issuable upon the conversion of preferred stock held of record by Trident Capital Parallel Fund-V, C.V., a partnership organized under the laws of the Netherlands, 1,568,630 shares of common stock issuable upon the conversion of preferred stock held of record by Trident Capital Fund-V Principals Fund, L.P., a Delaware limited partnership, 327,757 shares of common stock issuable upon the conversion of preferred stock held of record by Trident Capital Fund-V Affiliates Fund, L.P., a Delaware limited partnership, 312,759 shares of common stock issuable upon the conversion of preferred stock held of record by Trident Capital Fund-V

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Affiliates Fund (Q), L.P., a Delaware limited partnership. Trident Capital Management-V, L.L.C, a Delaware limited liability company ("TCM-V"), is the sole general partner of Trident Capital Fund-V, L.P., Trident Capital Fund-V Affiliates Fund, L.P., Trident Capital Fund-V Affiliates Fund (Q), L.P. and Trident Capital Fund V Principals Fund, L.P. TCM-V is the sole investment general partner of Trident Capital Parallel Fund-V, C.V. The members of TCM-V are Donald R. Dixon, Bonnie N. Kennedy, Peter T. Meekin, John H. Moragne and Robert C. McCormack (collectively, the "Managers"), together in the case of certain such individuals with their respective family planning vehicles. The Managers of TCM-V share voting and investment power with respect to the shares held by each fund.

- (13) Consists of 16,577,237 shares of common stock issuable upon the conversion of preferred stock held of record by AOS Partners, L.P., a Delaware limited partnership, 5,759,296 shares of common stock issuable upon the conversion of preferred stock held of record by GRPVC, L.P., a Delaware limited partnership, 2,007,778 shares of common stock issuable upon the conversion of preferred stock held of record by GRP II Investors, L.P., a Delaware limited partnership, and 752,916 shares of common stock issuable upon the conversion of preferred stock held of record by GRP II Partners, L.P., a Delaware limited partnership. Hique, Inc. is the sole general partner of AOS Partners, L.P. GRP Management Services Corp. is the sole general partner of GRPVC, L.P., GRP II Investors, L.P. and GRP II Partners, L.P. The investment committee members of Hique, Inc. are Brian McLoughlin, Mark Suster and Steven Dietz. The investment committee members of GRP Management Services Corp. are Yves B. Sisteron, Steven Dietz, Brian McLoughlin and Mark Suster. The investment committee members of Hique, Inc. and GRP Management Services Corp. share voting and investment power with respect to the shares held by each fund.

DESCRIPTION OF CAPITAL STOCK

General

The following description summarizes the most important terms of our capital stock, as they are expected to be in effect upon the completion of this offering. We intend to adopt an amended and restated certificate of incorporation and amended and restated bylaws in connection with this offering, and this description summarizes the provisions that are expected to be included in such documents. Because it is only a summary, it does not contain all the information that may be important to an investor. For a complete description of the matters set forth in this section, please refer to our amended and restated certificate of incorporation, amended and restated bylaws and investors' rights agreement, which are or will be included as exhibits to the registration statement of which this prospectus forms a part, and to the applicable provisions of Delaware law. Immediately following the completion of this offering, our authorized capital stock will consist of _____ shares of common stock, \$0.001 par value per share, and _____ shares of undesignated preferred stock, \$0.001 par value per share.

Assuming the automatic conversion of all outstanding shares of our convertible preferred stock into an aggregate of 175,973,235 shares of our common stock, which will occur upon the completion of this offering, as of March 31, 2012, there were 229,442,358 shares of our common stock outstanding, held by 386 stockholders of record, and no shares of our preferred stock outstanding. Our board of directors is authorized, without stockholder approval, to issue additional shares of our capital stock.

Common Stock

Dividend Rights

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. We have never declared or paid cash dividends on any of our capital stock and currently do not anticipate paying any cash dividends after this offering or in the foreseeable future.

Voting Rights

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting shares are able to elect all of the directors.

Liquidation

In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then outstanding shares of preferred stock.

Rights and Preferences

Holders of our common stock have no preemptive, conversion, subscription or other rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate in the future.

Preferred Stock

Immediately after the completion of this offering, our board of directors will have the authority, without further action by our stockholders, to issue up to _____ shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of preferred stock by us could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of our company or other corporate action. Upon the completion of this offering, no shares of preferred stock will be outstanding, and we have no present plan to issue any shares of preferred stock.

Registration Rights

After the completion of this offering, certain holders of our common stock will be entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights are contained in our Amended and Restated Investor Rights Agreement dated as of July 12, 2005 and are described in additional detail below. These registration rights will expire five years following the completion of this offering, or, with respect to any particular stockholder, when, following the completion of this offering, such stockholder (together with its affiliates, partners and former partners) holds less than one percent of our total outstanding common stock, or when such stockholder is able to sell all of its shares pursuant to Rule 144 of the Securities Act or a similar exemption during any 90-day period without volume limitations. We will pay the registration expenses (other than underwriting discounts and selling commissions) of the holders of the shares registered pursuant to the registrations described below. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include. In connection with this offering, each stockholder that has registration rights agreed not to sell or otherwise dispose of any securities without the prior written consent of the underwriters for a period of 180 days after the date of this prospectus, subject to certain terms and conditions. See the section titled "Underwriting" for additional information.

Demand Registration Rights

After the completion of this offering, the holders of approximately 182,320,095 shares of our common stock will be entitled to certain demand registration rights. 180 days after the effective date of this offering, the holders of at least a majority of these shares then outstanding can request that we register the offer and sale of their shares. If we determine that it would be seriously detrimental to our stockholders to effect such a demand registration, we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 120 days. Additionally, we will not be required to effect a demand registration during the period beginning with the date of filing of, and ending 180 days following the effectiveness of, a registration statement relating to the initial public offering of our securities.

Piggyback Registration Rights

After the completion of this offering, if we propose to register the offer and sale of any of our securities under the Securities Act, in connection with the public offering of such securities the holders of approximately 182,320,095 shares of our common stock may be entitled to certain "piggyback" registration rights allowing the holders to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under

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the Securities Act, other than with respect to (1) a registration related to a company stock plan and (2) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of our common stock, the holders of these shares are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

S-3 Registration Rights

After the completion of this offering, the holders of approximately 182,320,095 shares of our common stock will be entitled to certain S-3 registration rights. The holders of at least 20% of these shares then outstanding can make a written request that we register the offer and sale of their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 so long as the request is received from holders with at least 20% of such shares and covers at least that number of shares with an anticipated aggregate offering price, net of underwriting discounts and commissions, of at least \$1.0 million. These stockholders may make an unlimited number of requests for registration on Form S-3; however, we will not be required to effect a registration on Form S-3 if we have effected two such registrations in a given twelve-month period. Additionally, if we determine that it would be seriously detrimental to our stockholders to effect such a registration, we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 90 days.

Anti-Takeover Provisions

The provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws may have the effect of delaying, deferring or discouraging another person from acquiring control of our company. These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are governed by the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes mergers, asset sales or other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These provisions may have the effect of delaying, deferring or preventing a change in our control.

Board of Directors Vacancies

Our amended and restated certificate of incorporation and amended and restated bylaws will authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors will be permitted to be set only by a resolution adopted by a majority vote of our entire board of directors. These provisions would prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.

Classified Board

Our amended and restated certificate of incorporation and amended and restated bylaws will provide that our board is classified into three classes of directors. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors. See the section titled "Management—Board of Directors" for additional information.

Stockholder Action and Special Meeting of Stockholders

Our amended and restated certificate of incorporation will provide that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws. Our amended and restated bylaws will further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the Chairman of our board of directors, our Chief Executive Officer or our President, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our amended and restated bylaws will provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws will also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

No Cumulative Voting

The Delaware General Corporation Law provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our amended and restated certificate of incorporation and amended and restated bylaws will not provide for cumulative voting.

Directors Removed Only for Cause

Our amended and restated certificate of incorporation will provide that stockholders may remove directors only for cause.

Amendment of Charter Provisions

Any amendment of the above provisions in our amended and restated certificate of incorporation would require approval by holders of at least two-thirds of our then outstanding common stock.

Issuance of Undesignated Preferred Stock

Our board of directors will have the authority, without further action by the stockholders, to issue up to _____ shares of undesignated preferred stock with rights and preferences, including voting

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rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or other means.

Choice of Forum

Our amended and restated certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, any action regarding our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine.

Limitation of Liability and Indemnification of Officers and Directors

Our amended and restated certificate of incorporation will contain provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- any breach of their duty of loyalty to our company or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, our amended and restated bylaws will provide that we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws are expected to provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws will also provide that we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Further, prior to the completion of this offering, we expect to enter into indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements will require us, among other things, to indemnify our directors and executive officers against liabilities that may arise by reason of their status or service. These indemnification agreements will also require us to advance all expenses incurred by the directors and executive officers in

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investigating or defending any such action, suit, or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and executive officers. The limitation of liability and indemnification provisions that are expected to be included in our amended and restated certificate of incorporation, amended and restated bylaws, and indemnification agreements that we enter into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions. At present, we are not aware of any pending litigation or proceeding involving any person who is or was one of our directors, officers, employees or other agents or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

We have obtained or will obtain insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including claims relating to public securities matters, and to us with respect to payments that may be made by us to these directors and executive officers pursuant to our indemnification obligations or otherwise as a matter of law.

Certain of our non-employee directors may, through their relationships with their employers, be insured and/or indemnified against certain liabilities incurred in their capacity as members of our board of directors.

The underwriting agreement provides, or will provide, for indemnification by the underwriters of us and our directors, officers and employees for certain liabilities arising under the Securities Act or otherwise.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Listing Exchange

We expect to apply for listing of our common stock on _____ under the symbol "QLYS."

Transfer Agent and Registrar

Upon the completion of this offering, the transfer agent and registrar for our common stock will be _____. The transfer agent's address is _____, and its telephone number is _____.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of our common stock for sale will have on the market price of our common stock prevailing from time to time. Future sales of our common stock in the public market, or the availability of such shares for sale in the public market, could adversely affect market prices prevailing from time to time. As described below, only a limited number of shares will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nevertheless, sales of our common stock in the public market after such restrictions lapse, or the perception that those sales may occur, could adversely affect the prevailing market price at such time and our ability to raise equity capital in the future.

Following the completion of this offering, based on the number of shares of our capital stock outstanding as of March 31, 2012, we will have a total of _____ shares of our common stock outstanding. Of these outstanding shares, all of the _____ shares of common stock sold in this offering will be freely tradable, except that any shares purchased in this offering by our affiliates, as that term is defined in Rule 144 under the Securities Act, would only be able to be sold in compliance with the Rule 144 limitations described below.

The remaining outstanding shares of our common stock will be deemed “restricted securities” as defined in Rule 144. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which rules are summarized below. In addition, all of our security holders have entered into market standoff agreements with us or lock-up agreements with the underwriters under which they have agreed, subject to specific exceptions, not to sell any of our stock for at least 180 days following the date of this prospectus, as described below. As a result of these agreements and the provisions of our Amended and Restated Investor Rights Agreement described above in the section titled “Description of Capital Stock—Registration Rights,” subject to the provisions of Rule 144 or Rule 701, based on an assumed offering date of March 31, 2012, shares will be available for sale in the public market as follows:

- beginning on the date of this prospectus, the _____ shares of our common stock sold in this offering will be immediately available for sale in the public market;
- beginning 181 days after the date of this prospectus, subject to extension as described in the section titled “Underwriting” below, additional shares of our common stock will become eligible for sale in the public market, of which _____ shares will be held by affiliates and subject to the volume and other restrictions of Rule 144, as described below; and
- the remainder of the shares of our common stock will be eligible for sale in the public market from time to time thereafter, subject in some cases to the volume and other restrictions of Rule 144, as described below.

Lock-Up Agreements

We, all of our directors and officers and the holders of substantially all of our common stock and securities convertible into or exchangeable for our common stock have agreed or will agree that, subject to certain exceptions, without the prior written consent of J.P. Morgan Securities LLC on behalf of the underwriters, we and they will not, for a period of 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, or publicly disclose the intention to make any offer, sale, pledge or disposition;

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- enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of common stock or any security convertible into or exercisable or exchangeable for common stock; or
- make any demand for or exercise any right with respect to the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock;

with respect to the first and second bullets above, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or
- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period;

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event; provided that no such extension shall apply from and after such date, if any, as the Financial Industry Regulation Authority, Inc. shall have publicly announced that Rule 2711(f)(4) is no longer applicable with respect to any public offering (or any public offering with the same characteristics as this offering).

Rule 144

In general, under Rule 144 as currently in effect, once we have been subject to the public company reporting requirements of Section 13 or Section 15(d) of the Exchange Act for at least 90 days, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person would be entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, and upon expiration of the lock-up agreements described above, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately _____ shares immediately after this offering assuming no exercise of the underwriters' over-allotment option; or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale;

provided, in each case, that we have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required by that rule to wait until 90 days after the date of this prospectus before selling those shares pursuant to Rule 701.

Registration Rights

On the date beginning 180 days after the date of this prospectus, the holders of 182,320,095 shares of our common stock, or their transferees, will be entitled to various rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration, except for shares purchased by affiliates. See the section titled “Description of Capital Stock—Registration Rights” for additional information.

Equity Incentive Plans

Following the completion of this offering, we intend to file a registration statement on Form S-8 under the Securities Act to register shares of our common stock issued or reserved for issuance under our 2000 Plan and our 2012 Plan. The registration statement on Form S-8 will become effective immediately upon filing, and shares covered by such registration statement will thereupon be eligible for sale in the public markets, subject to vesting restrictions, the lock-up agreements described above and Rule 144 limitations applicable to affiliates. See the section titled “Executive Compensation—Employee Benefit and Stock Plans” for additional information.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of our common stock to non-U.S. holders, but does not purport to be a complete analysis of all the potential tax considerations relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, administrative rulings and judicial decisions, all as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in U.S. federal income tax consequences different from those set forth below. We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary also does not address the tax considerations arising under the laws of any non-U.S., state or local jurisdiction or under U.S. federal gift and estate tax laws, except to the limited extent set forth below. In addition, this discussion does not address tax considerations applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

- banks, insurance companies or other financial institutions;
- persons subject to the alternative minimum tax;
- tax-exempt organizations;
- controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid U.S. federal income tax;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- persons that own, or are deemed to own, more than five percent of our capital stock (except to the extent specifically set forth below);
- certain former citizens or long-term residents of the United States;
- persons who hold our common stock as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction;
- persons who do not hold our common stock as a capital asset within the meaning of Section 1221 of the Code; or
- persons deemed to sell our common stock under the constructive sale provisions of the Code.

In addition, if a partnership or entity classified as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Accordingly, partnerships that hold our common stock, and partners in such partnerships, should consult their tax advisors.

Please consult with a tax advisor with respect to the application of the U.S. federal income tax laws, as well as any tax consequences of the purchase, ownership and disposition of our common stock arising under the U.S. federal estate or gift tax rules or under the laws of any state, local, non-U.S. or other taxing jurisdiction or under any applicable tax treaty.

Non-U.S. Holder Defined

For purposes of this discussion, a non-U.S. holder is a beneficial owner of our common stock that is neither a U.S. holder nor a partnership (or other entity classified as a partnership for U.S. federal income tax purposes). A U.S. holder means a beneficial owner of our common stock that is:

- an individual citizen or resident of the United States (for tax purposes);
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust (x) whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (y) which has made an election to be treated as a U.S. person.

Distributions

We have not made any distributions on our common stock. However, if we do make distributions on our common stock, those payments will constitute dividends for U.S. tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those distributions exceed both our current and our accumulated earnings and profits, they will constitute a return of capital and will first reduce the holder's basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock. See the section titled "—Gain on Disposition of Common Stock" for additional information.

Any dividend paid on our common stock generally will be subject to U.S. withholding tax either at a rate of 30% of the gross amount of the dividend or such lower rate as may be specified by an applicable income tax treaty. In order to receive a reduced treaty rate, the holder must provide us with an IRS Form W-8BEN or other appropriate version of IRS Form W-8 certifying qualification for the reduced rate. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty be able to obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. If the non-U.S. holder holds the stock through a financial institution or other agent acting on the non-U.S. holder's behalf, the non-U.S. holder will be required to provide appropriate documentation to the agent, which then will be required to provide certification to us or our paying agent, either directly or through other intermediaries.

Dividends received by the holder that are effectively connected with such holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, such dividends are attributable to a permanent establishment maintained by the holder in the U.S.), are includible in the holder's gross income in the taxable year received and may be exempt from U.S. withholding tax. In order to obtain this exemption, the holder must provide us with an IRS Form W-8ECI or other applicable IRS Form W-8 properly certifying such exemption. Such effectively connected dividends, although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits, subject to an applicable income tax treaty providing otherwise. In addition, if the holder is a corporate non-U.S. person, dividends it receives that are effectively connected with its conduct of a U.S. trade or business may also be subject to a branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Gain on Disposition of Common Stock

A holder generally will not be required to pay U.S. federal income tax on any gain realized upon the sale or other disposition of our common stock unless:

- the gain is effectively connected with such holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, the gain is attributable to a permanent establishment maintained by such holder in the United States);
- such holder is an individual who is present in the United States for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "United States real property holding corporation," or USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding such holder's disposition of, or such holder's holding period for, our common stock.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, however, as long as our common stock is regularly traded on an established securities market, such common stock will be treated as U.S. real property interests only if a holder actually or constructively holds more than five percent of such regularly traded common stock at any time during the shorter of the five-year period preceding such holder's disposition of, or such holder's holding period for, our common stock. If any gain on a holder's disposition is taxable because we are a USRPHC and such holder's ownership of our common stock exceeds 5%, the holder will be taxed on such disposition generally in the manner applicable to U.S. persons and in addition, the purchaser of such common stock may be required to withhold a tax equal to 10% of the amount realized on the sale.

If a holder is a non-U.S. holder described in the first bullet above, such holder will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates, and a corporate non-U.S. holder described in the first bullet above also may be subject to the branch profits tax at a 30% rate, or such lower rate as may be specified by an applicable income tax treaty. If a holder is a non-U.S. holder described in the second bullet above, such holder will be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses for the year. Holders of our common stock should consult any applicable income tax or other treaties that may provide for different rules.

Federal Estate Tax

Our common stock beneficially owned by an individual who is not a citizen or resident of the United States (as defined for U.S. federal estate tax purposes) at the time of his or her death will generally be includable in the decedent's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid to a holder, such holder's name and address, and the amount of tax withheld, if any. A similar report will be sent to such holder. Pursuant to applicable income tax treaties or other agreements, the IRS may make these reports available to tax authorities in the holder's country of residence.

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Payments of dividends or of proceeds on the disposition of stock made to a holder may be subject to information reporting and backup withholding at a current rate of 28% (such rate scheduled to increase to 31% for payments made after December 31, 2012) unless the holder establishes an exemption, for example, by properly certifying its non-U.S. status on a Form W-8BEN or another appropriate version of IRS Form W-8. Notwithstanding the foregoing, backup withholding and information reporting may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person.

Backup withholding is not an additional tax; rather, the U.S. income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund or credit may generally be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Foreign Account Tax Compliance Act

Legislation enacted in 2010 generally will impose a U.S. federal withholding tax of 30% on dividends on our common stock and the gross proceeds from a disposition of our common stock, paid to foreign entities unless certain U.S. information reporting and due diligence requirements have been satisfied. Foreign financial institutions (as specially defined under these rules), will be subject to withholding unless such institutions enter into an agreement with the U.S. government to withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding the U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). Foreign entities other than foreign financial institutions will be subject to withholding unless such entities provide the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. The withholding tax is expected to apply to payments of dividends on our common stock beginning January 1, 2014 and to gross proceeds from dispositions of our common stock beginning January 1, 2015. Under certain limited circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our common stock.

The preceding discussion of U.S. federal tax considerations is for general information only. It is not tax advice. Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state and local and non-U.S. tax consequences of purchasing, holding and disposing of our common stock, including the consequences of any proposed change in applicable laws.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC and Credit Suisse Securities (USA) LLC are acting as joint book-running managers of the offering and as representatives of the underwriters. We will enter into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we will agree to sell to the underwriters, and each underwriter will severally agree to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

| <u>Name</u> | <u>Number of Shares</u> |
|---------------------------------------|-------------------------|
| J.P. Morgan Securities LLC | |
| Credit Suisse Securities (USA) LLC | |
| RBC Capital Markets, LLC | |
| Pacific Crest Securities LLC | |
| Robert W. Baird & Co. Incorporated | |
| JMP Securities LLC | |
| Lazard Capital Markets LLC | |
| First Analysis Securities Corporation | |
| Total | |

The underwriters will be committed to purchase all the shares of common stock offered by us if they purchase any shares. The underwriting agreement will also provide that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters propose to offer the shares of common stock directly to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of \$ per share. After the initial public offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside the United States may be made by affiliates of the underwriters. The representatives have advised us that the underwriters do not intend to confirm discretionary sales in excess of 5% of the shares of common stock offered in this offering.

The underwriters will have an option to purchase up to additional shares of common stock from us to cover sales of shares by the underwriters that exceed the number of shares specified in the table above. The underwriters have 30 days from the date of this prospectus to exercise this over-allotment option. If any shares are purchased with this over-allotment option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

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The underwriting discounts and commissions are equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting discounts and commissions are \$ per share. The following table shows the per share and total underwriting discounts and commissions payable by us to the underwriters in connection with this offering assuming both no exercise and full exercise of the underwriters' over-allotment option.

| | Total | | |
|----------------------------------------|-----------|-------------|---------------|
| | Per share | No exercise | Full exercise |
| Public offering price | \$ | \$ | \$ |
| Underwriting discounts and commissions | \$ | \$ | \$ |
| Proceeds, before expenses, to us | \$ | \$ | \$ |

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately \$.

Lazard Frères & Co. LLC referred this transaction to Lazard Capital Markets LLC and will receive a referral fee from Lazard Capital Markets LLC in connection therewith.

A prospectus in electronic format may be made available on the websites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

We, all of our directors and officers and the holders of substantially all of our common stock and securities convertible into or exchangeable for our common stock have agreed or will agree that, subject to certain exceptions, without the prior written consent of J.P. Morgan Securities LLC on behalf of the underwriters, we and they will not, for a period of 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock, or publicly disclose the intention to make any offer, sale, pledge or disposition;
- enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of common stock or any security convertible into or exercisable or exchangeable for common stock; or
- make any demand for or exercise any right with respect to the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock;

with respect to the first and second bullets above, whether any such transaction is to be settled by delivery of common stock or such other securities, in cash or otherwise.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to us occurs; or
- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period;

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in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event; provided that no such extension shall apply from and after such date, if any, as the Financial Industry Regulation Authority, Inc. shall have publicly announced that Rule 2711(f)(4) is no longer applicable with respect to any public offering (or any public offering with the same characteristics as this offering).

We will agree to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

We expect to apply for listing of our common stock on _____ under the symbol "QLYS."

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, or purchasing and selling shares of, common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress. These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on the _____, in the over-the-counter market or otherwise.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiations between us and the representatives of the underwriters. In determining the initial public offering price, we and the representatives of the underwriters will consider a number of factors including:

- the information set forth in this prospectus and otherwise available to the representatives;
- our prospects and the history and prospects for the industry in which we compete;
- an assessment of our management;

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- our prospects for future earnings;
- the general condition of the securities markets at the time of this offering;
- the recent market prices of, and demand for, publicly traded common stock of generally comparable companies; and
- other factors deemed relevant by the underwriters and us.

Neither we nor the underwriters can assure investors that an active trading market will develop for our common stock, or that the shares will trade in the public market at or above the initial public offering price.

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the shares of common stock offered by this prospectus in any jurisdiction where action for that purpose is required. The shares of common stock offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such shares of common stock be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

United Kingdom

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, all such persons together being referred to as relevant persons. The shares of common stock are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares of common stock will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive, each, a Relevant Member State, from and including the date on which the European Union Prospectus Directive, or the EU Prospectus Directive, was implemented in that Relevant Member State, or the Relevant Implementation Date, the Registrant may not make an offer of shares of common stock described in this prospectus to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that the Registrant may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- to any legal entity that is a qualified investor as defined under the EU Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive); or

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Ÿ in any other circumstances falling within Article 3(2) of the EU Prospectus Directive, provided that no such offer of securities described in this prospectus shall result in a requirement for the publication by us of a prospectus pursuant to Article 3 of the EU Prospectus Directive.

For the purposes of this provision, the expression an “offer of securities to the public” in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression “EU Prospectus Directive” means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances that do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances that do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), that is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted under the laws of Hong Kong) other than with respect to shares that are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person that is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and where each beneficiary of which is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that corporation or trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Switzerland

This document, as well as any other material relating to the shares of our common stock, which are the subject of the offering contemplated by this prospectus, does not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The shares will not be listed on the SIX Swiss Exchange and, therefore, the documents relating to the shares, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

The shares are being offered in Switzerland by way of a private placement, i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase the shares with the intention to distribute them to the public. The investors will be individually approached by us from time to time.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

LEGAL MATTERS

Wilson Sonsini Goodrich & Rosati, P.C., Palo Alto, California, will pass upon the validity of the shares of common stock offered hereby. As of the date of this prospectus, an attorney at, and investment partnerships associated with, Wilson Sonsini Goodrich & Rosati, P.C., beneficially owned an aggregate of 432,481 shares of our capital stock. The underwriters are being represented by Cooley LLP, Palo Alto, California in connection with this offering.

EXPERTS

The consolidated financial statements of Qualys, Inc. included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of such firm as experts in accounting and auditing in giving such report.

The financial statements for Nemean Networks, LLC as of August 31, 2010 and for the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010 included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent certified public accountants, upon the authority of such firm as experts in accounting and auditing in giving such reports.

WHERE YOU CAN FIND MORE INFORMATION

We filed a registration statement on Form S-1 with the SEC with respect to the registration of the common stock offered for sale by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits to the registration statement. For further information about us, the common stock we are offering by this prospectus and related matters, you should review the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus about the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and we refer you to the full text of the contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits that were filed with the registration statement may be inspected without charge at the SEC's Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from the SEC upon payment of the prescribed fee. Information on the operation of the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC. The address of the site is <http://www.sec.gov>. You may also request copies of these filings, at no cost, by mail to: Qualys, Inc., 1600 Bridge Parkway, Redwood City, California 94065, Attention: General Counsel; or at <http://www.qualys.com>.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Exchange Act, and, in accordance with such requirements, will file periodic reports, proxy statements, and other information with the SEC. These periodic reports, proxy statements, and other information will be available for inspection and copying at the regional offices, public reference facilities, and web site of the SEC referred to above. We intend to furnish our stockholders with annual reports containing consolidated financial statements audited by our independent registered accounting firm.

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Report of Independent Registered Public Accounting Firm

Board of Directors
Qualys, Inc.

We have audited the accompanying consolidated balance sheets of Qualys, Inc. (a Delaware corporation) and its subsidiaries (the "Company") as of December 31, 2010 and 2011, and the related consolidated statements of operations, comprehensive income (loss), cash flows and convertible preferred stock and stockholders' equity (deficit) for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qualys, Inc. and its subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
San Francisco, California
June 8, 2012

Qualys, Inc.
CONSOLIDATED BALANCE SHEETS

| | December 31, | | March 31, 2012 | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|--------------------------|
| | 2010 | 2011 | Actual | Pro Forma (unaudited) |
| (in thousands, except share and per share data) | | | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash | \$ 15,010 | \$ 24,548 | \$ 30,646 | |
| Accounts receivable, net of allowance of \$138, \$230 and \$236 at December 31, 2010 and 2011, and March 31, 2012, respectively | 14,292 | 20,750 | 15,579 | |
| Prepaid expenses and other current assets | 2,187 | 3,774 | 4,130 | |
| Total current assets | 31,489 | 49,072 | 50,355 | |
| Restricted cash | 115 | 112 | 115 | |
| Property and equipment, net | 8,210 | 13,861 | 15,150 | |
| Intangible assets, net | 3,580 | 3,175 | 3,073 | |
| Goodwill | 317 | 317 | 317 | |
| Other noncurrent assets | 649 | 2,252 | 2,308 | |
| Total assets | <u>\$ 44,360</u> | <u>\$ 68,789</u> | <u>\$ 71,318</u> | |
| Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit) | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 1,010 | \$ 2,254 | \$ 3,066 | |
| Accrued liabilities | 4,369 | 8,468 | 8,177 | |
| Deferred revenues, current | 37,811 | 46,717 | 48,354 | |
| Capital lease obligations, current | 1,516 | 1,987 | 1,936 | |
| Total current liabilities | 44,706 | 59,426 | 61,533 | |
| Deferred revenues, noncurrent | 1,734 | 4,713 | 5,745 | |
| Income taxes payable, noncurrent | 989 | 1,101 | 1,101 | |
| Other noncurrent liabilities | 1,490 | 2,134 | 1,659 | |
| Capital lease obligations, noncurrent | 1,537 | 2,406 | 1,709 | |
| Total liabilities | 50,456 | 69,780 | 71,747 | |
| Commitments and contingencies | | | | |
| Convertible preferred stock: | | | | |
| Series A convertible preferred stock: \$0.001 par value; 48,079,860 shares authorized; 47,665,722 shares issued and outstanding at December 31, 2010 and 2011, and March 31, 2012 (actual unaudited); aggregate liquidation preference—\$28,774; no shares issued and outstanding (pro forma unaudited) | 28,603 | 28,603 | 28,603 | \$ — |
| Series B convertible preferred stock: \$0.001 par value; 110,314,114 shares authorized; 110,314,114 shares issued and outstanding at December 31, 2010 and 2011, and March 31, 2012 (actual unaudited); aggregate liquidation preference—\$28,862; no shares issued and outstanding (pro forma unaudited) | 28,568 | 28,568 | 28,568 | — |
| Series C convertible preferred stock: \$0.001 par value; 18,006,026 shares authorized; 17,644,915, 17,993,399 and 17,993,399 shares issued and outstanding at December 31, 2010 and 2011, and March 31, 2012 (actual unaudited), respectively; aggregate liquidation preference—\$6,631; no shares issued and outstanding (pro forma unaudited) | 6,574 | 6,702 | 6,702 | — |
| Total convertible preferred stock | 63,745 | 63,873 | 63,873 | — |
| Stockholders' equity (deficit): | | | | |
| Common stock: \$0.001 par value; 284,900,000, 299,900,000 and 299,900,000 shares authorized at December 31, 2010 and 2011, and March 31, 2012 respectively; 48,625,234, 53,004,825 and 53,469,123 shares issued and outstanding at December 31, 2010 and 2011, and March 31, 2012 (actual unaudited) respectively; 229,442,358 shares issued and outstanding (pro forma unaudited) | 48 | 52 | 53 | 229 |
| Additional paid-in capital | 9,695 | 12,880 | 13,754 | 77,451 |
| Accumulated other comprehensive loss | (818) | (984) | (1,012) | (1,012) |
| Accumulated deficit | (78,766) | (76,812) | (77,097) | (77,097) |
| Total stockholders' equity (deficit) | (69,841) | (64,864) | (64,302) | \$ (429) |
| Total liabilities, convertible preferred stock and stockholders' equity (deficit) | <u>\$ 44,360</u> | <u>\$ 68,789</u> | <u>\$ 71,318</u> | |

See accompanying Notes to Consolidated Financial Statements

Qualys, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|----------------|-----------------|------------------------------|------------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands, except per share data) | | | | |
| | (unaudited) | | | | |
| Revenues | \$ 57,425 | \$ 65,432 | \$ 76,212 | \$ 17,690 | \$ 21,191 |
| Cost of revenues | <u>10,692</u> | <u>11,204</u> | <u>13,247</u> | <u>2,873</u> | <u>4,160</u> |
| Gross profit | 46,733 | 54,228 | 62,965 | 14,817 | 17,031 |
| Operating expenses: | | | | | |
| Research and development | 13,377 | 15,780 | 19,633 | 4,764 | 5,101 |
| Sales and marketing | 24,782 | 29,056 | 31,526 | 7,002 | 9,246 |
| General and administrative | 7,455 | 8,183 | 8,900 | 2,214 | 2,814 |
| Total operating expenses | <u>45,614</u> | <u>53,019</u> | <u>60,059</u> | <u>13,980</u> | <u>17,161</u> |
| Income (loss) from operations | 1,119 | 1,209 | 2,906 | 837 | (130) |
| Other income (expense), net: | | | | | |
| Interest expense | (180) | (186) | (204) | (62) | (65) |
| Interest income | 10 | 3 | 14 | 1 | — |
| Other income (expense), net | 130 | (383) | (346) | 398 | (12) |
| Total other income (expense), net | <u>(40)</u> | <u>(566)</u> | <u>(536)</u> | <u>337</u> | <u>(77)</u> |
| Income (loss) before provision for income taxes | 1,079 | 643 | 2,370 | 1,174 | (207) |
| Provision for income taxes | 220 | 236 | 416 | 128 | 78 |
| Net income (loss) | <u>\$ 859</u> | <u>\$ 407</u> | <u>\$ 1,954</u> | <u>\$ 1,046</u> | <u>\$ (285)</u> |
| Net income (loss) attributable to common stockholders | <u>\$ 171</u> | <u>\$ 86</u> | <u>\$ 436</u> | <u>\$ 227</u> | <u>\$ (285)</u> |
| Net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |
| Diluted | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |
| Weighted average shares used in computing net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | <u>43,995</u> | <u>47,057</u> | <u>50,529</u> | <u>48,820</u> | <u>52,601</u> |
| Diluted | <u>228,044</u> | <u>235,617</u> | <u>241,936</u> | <u>238,480</u> | <u>52,601</u> |
| Pro forma net income (loss) per share attributable to common stockholders (unaudited): | | | | | |
| Basic | | | <u>\$ 0.01</u> | | <u>\$ (0.00)</u> |
| Diluted | | | <u>\$ 0.01</u> | | <u>\$ (0.00)</u> |
| Weighted average shares used in computing pro forma net income (loss) per share attributable to common stockholders (unaudited): | | | | | |
| Basic | | | <u>226,432</u> | | <u>228,574</u> |
| Diluted | | | <u>241,936</u> | | <u>228,574</u> |

See accompanying Notes to Consolidated Financial Statements

Qualys, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Year Ended December 31, | | | Three Months Ended | |
|------------------------------------------|-------------------------|---------------|-----------------|--------------------|-----------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| | | | (in thousands) | | |
| Net income (loss) | \$ 859 | \$ 407 | \$ 1,954 | \$ 1,046 | \$ (285) |
| Foreign currency translation gain (loss) | (104) | (9) | (166) | (51) | (28) |
| Comprehensive income (loss) | <u>\$ 755</u> | <u>\$ 398</u> | <u>\$ 1,788</u> | <u>\$ 995</u> | <u>\$ (313)</u> |

See accompanying Notes to Consolidated Financial Statements

Qualys, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|-----------------------------------------------------------------------------------|----------------------------|-----------------|-----------------|---------------------------------|-----------------|
| | 2009 | 2010 | 2011 | 2011 2012 (unaudited) | |
| | (in thousands) | | | | |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | \$ 859 | \$ 407 | \$ 1,954 | \$ 1,046 | \$ (285) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization expense | 3,923 | 4,569 | 5,373 | 1,293 | 1,750 |
| Bad debt expense | 95 | 117 | 193 | 24 | 11 |
| Loss on disposal of property and equipment | 5 | 13 | 1 | — | 4 |
| Stock-based compensation | 1,120 | 1,870 | 2,147 | 477 | 670 |
| Non-cash interest expense | 21 | 12 | 36 | 9 | 9 |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (3,061) | (1,166) | (6,651) | 3,754 | 5,159 |
| Prepaid expenses and other assets | (225) | (112) | (3,835) | (103) | (388) |
| Accounts payable | (292) | (82) | 1,248 | 612 | 807 |
| Accrued liabilities | (193) | (182) | 2,817 | 174 | (732) |
| Deferred revenues | 5,020 | 4,415 | 11,885 | 710 | 2,668 |
| Income taxes payable | 58 | (48) | 333 | 258 | 4 |
| Other noncurrent liabilities | 141 | 83 | 1,689 | 14 | (49) |
| Net cash provided by operating activities | <u>7,471</u> | <u>9,896</u> | <u>17,190</u> | <u>8,268</u> | <u>9,628</u> |
| Cash flows from investing activities: | | | | | |
| Purchases of property and equipment, net | (3,889) | (1,510) | (7,499) | (830) | (2,927) |
| Acquisition of business, net | — | (2,751) | — | — | — |
| Net cash used in investing activities | <u>(3,889)</u> | <u>(4,261)</u> | <u>(7,499)</u> | <u>(830)</u> | <u>(2,927)</u> |
| Cash flows from financing activities: | | | | | |
| Principal payments under capital lease obligations | (825) | (1,149) | (1,476) | (404) | (748) |
| Principal payments on notes payable | (599) | — | — | — | — |
| Proceeds from exercise of stock options | 198 | 522 | 948 | 163 | 170 |
| Proceeds from early exercise of stock options | 2 | 80 | 390 | — | — |
| Proceeds from issuance of Series C Preferred Stock | — | — | 128 | 128 | — |
| Net cash used in financing activities | <u>(1,224)</u> | <u>(547)</u> | <u>(10)</u> | <u>(113)</u> | <u>(578)</u> |
| Effect of exchange rate changes on cash | (64) | (27) | (143) | 24 | (25) |
| Net increase in cash | 2,294 | 5,061 | 9,538 | 7,349 | 6,098 |
| Cash at beginning of period | 7,655 | 9,949 | 15,010 | 15,010 | 24,548 |
| Cash at end of period | <u>\$ 9,949</u> | <u>\$15,010</u> | <u>\$24,548</u> | <u>\$22,359</u> | <u>\$30,646</u> |
| Supplemental disclosures of cash flow information | | | | | |
| Cash paid for interest expense | \$ 159 | \$ 163 | \$ 128 | \$ 47 | \$ 53 |
| Cash paid for income taxes, net of refunds | — | 303 | 108 | (87) | 68 |
| Non-cash investing and financing activities | | | | | |
| Purchase of property and equipment under capital lease | 677 | 2,467 | 3,100 | — | — |
| Purchase of prepaid maintenance under capital lease | 54 | — | — | — | — |
| Issuance of common stock for acquisition of business | — | 77 | — | — | — |

See accompanying Notes to Consolidated Financial Statements

Qualys, Inc.
**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK
AND STOCKHOLDERS' EQUITY (DEFICIT)**

| | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|-----------------------------------------------------------------------------------------|-----------------------------|-----------------|--------------------|---------------|----------------------------|--------------------------------------|---------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| (in thousands, except share data) | | | | | | | | |
| Balances at December 31, 2008 | 175,624,751 | \$ 63,745 | 44,902,643 | \$ 43 | \$ 5,670 | \$ (705) | \$ (79,318) | \$(74,310) |
| Net income | — | — | — | — | — | — | 859 | 859 |
| Foreign currency translation | — | — | — | — | — | (104) | — | (104) |
| Issuance of common stock upon exercise of stock options | — | — | 1,530,625 | 2 | 196 | — | — | 198 |
| Vesting of early exercised common stock options | — | — | — | — | 211 | — | — | 211 |
| Issuance of common stock in exchange for services | — | — | 95,000 | — | 32 | — | — | 32 |
| Stock-based compensation | — | — | — | — | 1,088 | — | — | 1,088 |
| Adjustment to retained earnings upon adoption of accounting for uncertain tax positions | — | — | — | — | — | — | (714) | (714) |
| Balances at December 31, 2009 | <u>175,624,751</u> | <u>63,745</u> | <u>46,528,268</u> | <u>45</u> | <u>7,197</u> | <u>(809)</u> | <u>(79,173)</u> | <u>(72,740)</u> |
| Net income | — | — | — | — | — | — | 407 | 407 |
| Foreign currency translation | — | — | — | — | — | (9) | — | (9) |
| Issuance of common stock upon exercise of stock options | — | — | 3,178,230 | 3 | 519 | — | — | 522 |
| Vesting of early exercised common stock options | — | — | — | — | 32 | — | — | 32 |
| Repurchase of unvested early exercised stock options | — | — | (1,368,764) | — | — | — | — | — |
| Issuance of common stock in exchange for services | — | — | 37,500 | — | 15 | — | — | 15 |
| Issuance of common stock for acquisition of business | — | — | 250,000 | — | 77 | — | — | 77 |
| Stock-based compensation | — | — | — | — | 1,855 | — | — | 1,855 |
| Balances at December 31, 2010 | <u>175,624,751</u> | <u>63,745</u> | <u>48,625,234</u> | <u>48</u> | <u>9,695</u> | <u>(818)</u> | <u>(78,766)</u> | <u>(69,841)</u> |
| Net income | — | — | — | — | — | — | 1,954 | 1,954 |
| Foreign currency translation | — | — | — | — | — | (166) | — | (166) |
| Issuance of Series C Preferred Stock upon exercise of warrants | 348,484 | 128 | — | — | — | — | — | — |
| Issuance of common stock upon exercise of stock options | — | — | 4,327,092 | 4 | 944 | — | — | 948 |
| Vesting of early exercised common stock options | — | — | — | — | 52 | — | — | 52 |
| Repurchase of unvested early exercised stock options | — | — | (10,001) | — | — | — | — | — |
| Issuance of common stock in exchange for services | — | — | 62,500 | — | 59 | — | — | 59 |
| Stock-based compensation | — | — | — | — | 2,088 | — | — | 2,088 |
| Other adjustments | — | — | — | — | 42 | — | — | 42 |
| Balances at December 31, 2011 | <u>175,973,235</u> | <u>63,873</u> | <u>53,004,825</u> | <u>52</u> | <u>12,880</u> | <u>(984)</u> | <u>(76,812)</u> | <u>(64,864)</u> |
| Net loss (unaudited) | — | — | — | — | — | — | (285) | (285) |
| Foreign currency translation (unaudited) | — | — | — | — | — | (28) | — | (28) |
| Issuance of common stock upon exercise of stock options (unaudited) | — | — | 1,064,298 | 1 | 169 | — | — | 170 |
| Vesting of early exercised common stock options (unaudited) | — | — | — | — | 29 | — | — | 29 |
| Repurchase of unvested early exercised stock options (unaudited) | — | — | (600,000) | — | — | — | — | — |
| Issuance of common stock in exchange for services (unaudited) | — | — | — | — | 6 | — | — | 6 |
| Stock-based compensation (unaudited) | — | — | — | — | 670 | — | — | 670 |
| Balances at March 31, 2012 (unaudited) | <u>175,973,235</u> | <u>63,873</u> | <u>53,469,123</u> | <u>53</u> | <u>13,754</u> | <u>(1,012)</u> | <u>(77,097)</u> | <u>(64,302)</u> |
| Conversion of convertible preferred stock into common stock (unaudited) | <u>(175,973,235)</u> | <u>(63,873)</u> | <u>175,973,235</u> | <u>176</u> | <u>63,697</u> | — | — | <u>63,873</u> |
| Pro forma balances at March 31, 2012 (unaudited) | <u>—</u> | <u>\$ —</u> | <u>229,442,358</u> | <u>\$ 229</u> | <u>\$ 77,451</u> | <u>\$ (1,012)</u> | <u>\$ (77,097)</u> | <u>\$ (429)</u> |

See accompanying Notes to Consolidated Financial Statements

Qualys, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011 AND
THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (UNAUDITED)

NOTE 1. The Company and Summary of Significant Accounting Policies

Description of Business

Qualys, Inc. (the "Company") was incorporated in the state of Delaware on December 30, 1999. The Company is headquartered in Redwood City, California and has majority-owned subsidiaries throughout the world. The Company is a pioneer and leading provider of cloud 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 QualysGuard 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 have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and include all 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 majority-owned subsidiaries, which are located in Brazil, Canada, France, Germany, Hong Kong, India, Japan, Mexico, Singapore, the United Arab Emirates and the United Kingdom. All significant intercompany transactions and balances have been eliminated.

Subsequent Events

The Company has evaluated subsequent events after the audited balance sheet date of December 31, 2011 through June 8, 2012, the date the accompanying consolidated financial statements were issued.

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 contingent 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, common stock, stock-based compensation and the valuation allowances associated with deferred tax assets. Actual results could differ from those estimates and such differences may be material to the accompanying consolidated financial statements.

Qualys, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011 AND
THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (UNAUDITED)

Unaudited Interim Financial Information

The accompanying interim consolidated balance sheet as of March 31, 2012, interim consolidated statements of operations, comprehensive income (loss), and cash flows for the three months ended March 31, 2011 and 2012 and interim consolidated statements of convertible preferred stock and stockholders' equity (deficit) for the three months ended March 31, 2012 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with U.S. GAAP. In the opinion of management, these interim consolidated financial statements have been prepared on the same basis as the accompanying audited consolidated financial statements. They reflect all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the interim consolidated balance sheet as of March 31, 2012, interim consolidated results of operations, comprehensive income (loss), and cash flows for the three months ended March 31, 2011 and 2012 and the interim consolidated statements of convertible preferred stock and stockholders' equity (deficit) for the three months ended March 31, 2012.

The consolidated financial data disclosed in these notes to the interim consolidated financial statements related to the three months ended March 31, 2011 and 2012 are also unaudited. The interim consolidated results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results expected for the entire year ending December 31, 2012 or for any other future annual or interim period.

Unaudited Pro Forma Stockholders' Equity

The unaudited pro forma balance sheet and pro forma statement of convertible preferred stock and stockholders' equity (deficit) as of March 31, 2012 reflect the impact of the contemplated initial public offering of the Company's common stock. If the contemplated offering is completed, all 175,973,235 shares of Series A, B and C convertible preferred stock outstanding as of March 31, 2012 would automatically convert into 175,973,235 shares of common stock.

Convertible Preferred Stock

A sale of all or substantially all of the Company's assets or merger or consolidation of the Company with another entity is treated as a liquidation unless, following such transaction, the Company's stockholders directly or indirectly own, in the aggregate, more than 50% of the total voting power of the surviving or acquiring entity. These liquidation provisions and the extent of preferred stock holdings result in the preferred stock having redemption features that are not solely in the control of the Company. Because a potential purchaser could acquire a majority of the outstanding voting stock, triggering a redemption that is outside of the Company's control, all shares of convertible preferred stock have been presented outside of permanent equity in the accompanying consolidated balance sheets for all periods presented.

Concentration of Credit Risk

The Company deposits its cash balances with major financial institutions. Cash balances with any one institution at times may be in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Qualys, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011 AND
THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (UNAUDITED)

Credit risk with respect to accounts receivable is dispersed due to the large number of customers. In addition, the Company's credit risk is mitigated by the relatively short collection period. Collateral is not required for accounts receivable. The Company maintains an allowance for potential credit losses based upon the expected collectability of accounts receivable. The Company writes off its receivables when collectability is deemed to be doubtful. As of December 31, 2010 and 2011 and March 31, 2012, no customer accounted for more than 10% of the Company's accounts receivable balance.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when acquired. These investments are stated at cost, which approximates fair market value. The Company's balance of \$15,010,000, \$24,548,000 and \$30,646,000 at December 31, 2010 and 2011, and March 31, 2012, respectively, consists entirely of cash held in banks.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts represents the Company's best estimate of the amount of probable credit losses and is determined based on a review of existing accounts receivable by aging category to identify significant customers or invoices with known disputes or collectability issues. For those invoices not specifically reviewed, the reserve is calculated based on the age of the receivable.

Any change in the assumptions used in analyzing a specific account receivable may result in an additional allowance for doubtful accounts being recognized in the period in which the change occurs. When the Company ultimately concludes that a receivable is uncollectible, the balance is charged against the allowance for doubtful accounts. Payments subsequently received on such receivables are credited back to the allowance for doubtful accounts.

Deferred Offering Costs

Deferred offering costs relating to the Company's initial public offering will be capitalized in prepaid expenses and other current assets on the consolidated balance sheet and will consist primarily of legal, accounting and filing fees. The deferred offering costs will be offset against the proceeds from the offering upon its completion. If the offering is terminated, the deferred offering costs will be expensed. No costs related to this offering were incurred as of December 31, 2010 and 2011 or March 31, 2012.

Restricted Cash

Restricted cash includes amounts maintained with banks as security deposits for certain leased facilities and, accordingly, is classified as a non-current asset.

Property and Equipment

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,

Qualys, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011 AND
THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (UNAUDITED)

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 lease term. Property under capital lease is amortized over the term of the respective lease or the estimated useful life of the asset, whichever is shorter.

The Company purchases physical scanner appliances and other computer equipment that are provided on a subscription basis. This equipment is recorded as an asset within property and equipment, and the depreciation is allocated to 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 or equipment.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, which consist of property and equipment, 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 net 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. As of December 31, 2010 and 2011 and March 31, 2012, the Company has not written down any of its long-lived assets as a result of impairment.

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 annually or 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 units 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 qualitative assessment for the year ended December 31, 2011 and concluded there was no impairment of goodwill.

If the qualitative assessment indicates there is more than a 50% likelihood that the fair value is less than the carrying amount, the Company would perform a two-step test. In the first step, the carrying value of the reporting unit is compared to its estimated fair value. If the estimated fair value is less than the carrying value, then potential impairment exists. In the second step, the Company calculates the amount of any impairment by determining the implied fair value of goodwill using a

Qualys, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009, 2010 AND 2011 AND
THREE MONTHS ENDED MARCH 31, 2011 AND 2012 (UNAUDITED)

hypothetical purchase price allocation, similar to that which would be applied if it were an acquisition and the purchase price was equivalent to fair value as calculated in the first step. Impairment is equivalent to any excess of goodwill carrying value over its implied fair value.

Certain other intangible assets acquired are amortized over their estimated useful lives and tested for impairment if certain circumstances indicate an impairment may exist. The Company's intangible assets are comprised primarily of existing technology, patent license, and non-competition agreements and are amortized over periods ranging from three to fourteen years on a straight-line basis.

Software Development Costs

The Company capitalizes qualifying computer software costs developed or obtained for internal use. These costs generally include internal costs, such as payroll and benefits of those employees directly associated with the development of the software. Total capitalized development costs are \$251,000 at December 31, 2010 and 2011, and March 31, 2012; and the related accumulated amortization is \$240,000, \$251,000 and \$251,000 at December 31, 2010 and 2011 and March 31, 2012, respectively. The capitalized development costs are recorded in other noncurrent assets and were fully amortized at December 31, 2011 and March 31, 2012.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company uses foreign currency forward contracts to mitigate the impact of foreign currency fluctuations of certain non-U.S. dollar denominated asset positions, primarily cash and accounts receivable. These contracts are included in prepaid expenses and other current assets in the consolidated balance sheets. Gains and losses resulting from the impact of currency exchange rate movements on these forward contracts are recognized in other income (expense) in the accompanying consolidated statements of operations in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposure being hedged. The Company does not enter into financial instruments for trading or speculative purposes.

At December 31, 2011, the Company had one outstanding forward contract with a notional amount of 3,680,000 Euros, which expired on January 31, 2012. At March 31, 2012, the Company had one outstanding forward contract with a notional amount of 5,600,000 Euros, which expired on April 30, 2012. These contracts were entered into at the end of each period, and thus the fair value of the contracts was \$0 at December 31, 2011 and March 31, 2012. The net gain (loss) during the three months ended March 31, 2012 was not material. These derivatives were not designated as hedges. The Company did not have any outstanding contracts at December 31, 2010.

Stock-Based Compensation

The Company recognizes compensation expense for its employee stock options over the requisite service period for awards of equity instruments based on the grant-date fair value of those awards ultimately expected to vest. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

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Option grants to non-employees are accounted for at the fair value of the consideration received or the fair value of the equity instrument issued, as calculated using the Black-Scholes model, whichever is more readily determinable. The stock-based compensation expense for non-employees is subject to periodic adjustments as the options vest, and the expense is recognized over the period in which services are received.

Revenue Recognition

The Company derives revenues from subscriptions that require customers to pay a fee in order to access the Company's cloud solutions. 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 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. Customers are required to return physical scanner appliances if they do not renew their subscriptions.

The Company recognizes revenues when all of the following conditions are met:

- There is persuasive evidence of an arrangement.
- The service has been provided to the customer.
- The collection of the fees is reasonably assured.
- The amount of fees to be paid by the customer is fixed or determinable.

Subscriptions are recognized ratably over the subscription period. The Company recognizes revenues from subscriptions that include physical scanner appliances and other computer equipment ratably over the period of the subscription. Because the customer's access to the Company's cloud solutions are delivered at the same time as or within close proximity to the delivery of physical scanner appliances and the terms are commensurate for these services and equipment, the Company considers these elements as a single unit of accounting recognized ratably over the subscription period.

In October 2009, the Financial Accounting Standards Board ("FASB") issued revised accounting guidance on revenue recognition, which was effective for new or materially modified contracts the Company entered into during 2011.

Beginning on January 1, 2011, the Company adopted this authoritative accounting guidance on multiple-element arrangements, using the prospective method for all arrangements entered into or materially modified from the date of adoption. As a result of implementing this authoritative guidance, the Company's revenues for the year ended December 31, 2011 and the three months ended March 31, 2012 were not materially different from what would have been recognized under the previous guidance for multiple-element arrangements. The Company does not expect that the adoption of this standard will have a significant impact on its revenue recognition in the future.

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Deferred revenues consist of revenues billed or 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 consolidated 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.

Advertising Expenses

Advertising costs are expensed as incurred and include costs of advertising, trade show costs and promotional materials. For the years ended December 31, 2009, 2010 and 2011, the Company incurred advertising costs of \$3,236,000, \$3,754,000 and \$4,054,000, respectively, and for the three months ended March 31, 2011 and 2012, such costs were \$1,165,000 and \$1,174,000, respectively.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using statutory tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. Tax positions are based upon their technical merits, relevant tax law and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax positions. A tax position is only recognized in the financial statements if it is "more likely than not" to be sustained based solely on its technical merits as of the reporting date. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments that could result in recognition of additional tax benefits or additional charges to the tax provision and may not accurately reflect actual outcomes. The Company's policy is to recognize interest and penalties relating to unrecognized tax benefits as a component of the provision for income tax.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of foreign currency translation adjustments that are not included in the Company's net income. Total comprehensive income (loss) includes net income (loss) and other comprehensive income (loss) and is included in the consolidated statements of comprehensive income (loss).

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Foreign Currency Translation

The Company's operations are conducted in various countries around the world and the financial statements of its foreign subsidiaries are reported in the applicable local foreign currencies (functional currencies). Financial information is translated from the applicable functional currency to the U.S. dollar, the reporting currency, for inclusion in the Company's consolidated financial statements. Accordingly, the assets and liabilities of the Company's foreign subsidiaries are translated using exchange rates in effect as of the balance sheet date, and income and expenses are translated at average exchange rates during the year. Resulting translation adjustments are included as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit).

Foreign currency transaction gains or losses are recognized in other income (expense). The Company recorded foreign currency transaction gains (losses) of \$128,000, (\$372,000) and (\$338,000) during the years ended December 31, 2009, 2010 and 2011, respectively, and \$394,000 and (\$4,000) during the three months ended March 31, 2011 and 2012, respectively.

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 the Company's financial instruments, including cash, accounts receivable, accounts payable, and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

The Company has an asset that is valued 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, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data 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.

At December 31, 2011 and March 31, 2012, a derivative financial instrument, consisting of a foreign currency forward contract, was valued at \$0 as the contract was entered into on the last day of the period. This instrument was valued using Level 2 inputs.

Net Income (Loss) Per Share Attributable to Common Stockholders

We compute net income (loss) attributable to common stockholders using the two-class method required for participating securities. We consider our convertible preferred stock and shares of

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common stock subject to repurchase resulting from the early exercise of stock options to be participating securities since they contain non-forfeitable rights to dividends or dividend equivalents in the event we declare a dividend for common stock. In accordance with the two-class method, earnings allocated to these participating securities are subtracted from net income after deducting preferred stock dividends, if any, to determine total undistributed earnings to be allocated to common stockholders. The holders of our convertible preferred stock do not have a contractual obligation to share in our net losses and such shares are excluded from the computation of basic earnings per share in periods of net loss.

Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are reallocated to reflect the potential impact of dilutive securities. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders 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, warrants, convertible preferred stock and contingently issuable shares related to an acquisition. The dilutive potential common shares are computed using the treasury stock method or the as-if converted method, as applicable. The effects of outstanding stock options, warrants, convertible preferred stock and contingently issuable shares related to an acquisition are excluded from the computation of diluted net income (loss) per common share in periods in which the effect would be antidilutive.

Recent Accounting Pronouncements

Under the Jumpstart Our Business Startups Act, or the JOBS Act, the Company meets the definition of an “emerging growth company.” The Company has irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act. As a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required from non-emerging growth companies.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement*, which generally represents clarifications of ASC Topic 820, *Fair Value Measurement*, but also includes some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. ASU 2011-04 results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 should be applied prospectively and is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. This newly issued accounting standard requires an entity to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions executed under a master netting

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or similar arrangement and was issued to enable users of financial statements to understand the effects or potential effects of those arrangements on its financial position. This ASU is required to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. As this accounting standard only requires enhanced disclosure, the adoption of this standard is not expected to have an impact the Company's financial position or results of operations.

NOTE 2. Property and Equipment

Property and equipment, which includes assets under capital lease, consists of the following:

| | December 31, | | March 31, |
|-------------------------------------------------|-----------------|------------------|---------------------|
| | 2010 | 2011 | 2012 (unaudited) |
| | (in thousands) | | |
| Computer equipment | \$ 8,359 | \$ 12,483 | \$ 13,954 |
| Computer software | 1,844 | 5,720 | 5,749 |
| Furniture, fixtures and equipment | 1,162 | 1,330 | 1,430 |
| Scanner appliances | 11,504 | 13,394 | 14,493 |
| Leasehold improvements | 1,378 | 1,418 | 1,544 |
| Total property and equipment | 24,247 | 34,345 | 37,170 |
| Less: accumulated depreciation and amortization | (16,037) | (20,484) | (22,020) |
| Property and equipment, net | <u>\$ 8,210</u> | <u>\$ 13,861</u> | <u>\$ 15,150</u> |

Assets held under capital lease included in computer equipment and software at December 31, 2010 and 2011 and March 31, 2012 totaled approximately \$4,812,000, \$8,053,000 and \$8,053,000, respectively. The related accumulated depreciation at December 31, 2010 and 2011 and March 31, 2012 totaled \$1,954,000, \$3,313,000 and \$3,752,000 respectively. The capital lease obligations are secured by the related equipment.

Physical scanner appliances and other computer equipment that are or will be subject to subscriptions by customers have a net carrying value of \$3,519,000, \$3,436,000 and \$4,031,000 at December 31, 2010 and 2011 and March 31, 2012, respectively, including assets that have not been placed in service of \$709,000, \$210,000 and \$733,000, respectively. Other fixed assets not placed in service at December 31, 2010 and 2011 and March 31, 2012, included in computer equipment and leasehold improvements, relate to new information technology systems and tenant improvements of approximately \$440,000, \$500,000 and \$954,000, respectively. Depreciation and amortization expense relating to property and equipment, including capitalized leases, was \$3,861,000, \$4,400,000 and \$4,939,000 for the years ended December 31, 2009, 2010 and 2011, respectively, and \$1,183,000 and \$1,640,000 the three months ended March 31, 2011 and 2012, respectively.

NOTE 3. Business Combination

On August 31, 2010, the Company acquired Nemean Networks, LLC ("Nemean"), a company developing network security solutions for detection and awareness of external intrusions to computer networks. The Company acquired Nemean to provide additional solutions on its cloud platform. The

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consideration for this acquisition consisted of \$3.7 million in cash and common stock, including a non-contingent cash payment of \$1.0 million in cash and 62,500 shares of common stock each payable two years after the acquisition date. The non-contingent cash payment amount is recorded in current liabilities at its net present value. Additionally, the Company acquired an exclusive license to certain patents in connection with the Nemean acquisition and may elect to make annual payments of \$25,000 for ten years beginning September 1, 2012 to a third party in order to maintain the exclusivity of the license. The Company accounted for this transaction as a business combination.

The valuation of acquired net assets is as follows (in thousands):

| | |
|------------------------------------|----------------|
| Net tangible assets | \$ 55 |
| Existing technology | 1,910 |
| Patent license | 1,339 |
| Non-competition agreements | 111 |
| Goodwill | 317 |
| Total purchase price consideration | <u>\$3,732</u> |

The estimated economic lives of the intangible assets is 7 years for existing technology, 14 years for the patent license and 3 years for the non-competition agreements. The goodwill balance represents buyer-specific value resulting from synergies with the Company's planned services that are not included in the fair value of assets, and it is not deductible for tax purposes.

In performing the purchase price allocation, the Company considered, among other factors, its intention for future use of the acquired assets, estimates of future performance and integration into its existing platform. The fair value of the intangible assets was primarily based on the income approach.

NOTE 4. Goodwill and Intangible Assets, Net

Intangible assets consist primarily of existing technology, patent license and non-competition agreements acquired in business combinations. 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 (in thousands):

| | Estimated Lives | Cost | December 31, | | March 31, 2012 | | | |
|-----------------------------------------------|-----------------|----------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------|-----------------|
| | | | 2010 | 2011 | (unaudited) | | | |
| | | | Accumulated Amortization | Net Book Value | Accumulated Amortization | Net Book Value | Accumulated Amortization | Net Book Value |
| Existing technology | 7 years | \$1,910 | \$ (91) | \$ 1,819 | \$ (364) | \$ 1,546 | \$ (432) | \$ 1,478 |
| Patent license | 14 years | 1,339 | (32) | 1,307 | (127) | 1,212 | (151) | 1,188 |
| Non-competition agreements | 3 years | 111 | (12) | 99 | (49) | 62 | (59) | 52 |
| Total intangibles subject to amortization | | <u>\$3,360</u> | <u>\$ (135)</u> | 3,225 | <u>\$ (540)</u> | 2,820 | <u>\$ (642)</u> | 2,718 |
| Intangible assets not subject to amortization | | | | 355 | | 355 | | 355 |
| Total intangible assets, net | | | | <u>\$ 3,580</u> | | <u>\$ 3,175</u> | | <u>\$ 3,073</u> |

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Intangibles amortization expense was \$135,000 and \$405,000 for the years ended December 31, 2010 and 2011, respectively, and \$101,000 for each of the three months ended March 31, 2011 and 2012. No intangible amortization expense was recorded for the year ended December 31, 2009.

As of December 31, 2011, the Company expects amortization expense in future periods to be as follows (in thousands):

| | |
|--------------------------------------------|----------------|
| 2012 | \$ 406 |
| 2013 | 393 |
| 2014 | 368 |
| 2015 | 368 |
| 2016 | 369 |
| 2017 and thereafter | 916 |
| Total expected future amortization expense | <u>\$2,820</u> |

Goodwill, which is not subject to amortization, totaled \$317,000 as of December 31, 2010 and 2011, and March 31, 2012. The Company performed its annual goodwill impairment test for the year ended December 31, 2011 using a qualitative assessment and concluded there was no impairment of goodwill as the qualitative assessment performed did not indicate that it is more likely than not that the single reporting unit fair value is less than its carrying value.

NOTE 5. Commitments and Contingencies***Line of Credit***

In March 2009, the Company entered into an equipment line of credit of \$1,500,000. The line of credit allowed the Company to borrow to purchase specific equipment. Each advance was immediately amortizable and payable in 30 monthly installments, with the final maturity date to be no later than September 2012. Each advance was secured by the specific equipment and carried an interest rate of 9.0%. In March 2010, the Company amended its equipment line of credit. The amount available for draws at the time of the amendment was increased by \$775,000 and was available through February 2011. Each advance was immediately amortizable and payable in 30 monthly installments, with final maturity date to be no later than August 2013, and carried an interest rate of 7.5%. In December 2010, the Company completed a second amendment to its equipment line of credit. The amount available for draws at the time of the amendment was increased by an additional \$1,000,000 and was available through February 2012. Each advance is immediately amortizable and payable in 30 monthly installments, with the final maturity date to be no later than August 2014, and carries an interest rate of 6.5%. At December 31, 2011 and March 31, 2012, the Company had \$892,000 and \$683,000, respectively, in outstanding borrowings under this line of credit, which are recorded in capital lease obligations in the consolidated balance sheets. The remaining amount available for borrowings at December 31, 2011 was \$937,000. The line of credit expired in February 2012, and the Company is not able to draw any further funds from the line of credit.

Leases

The Company leases certain computer equipment and its corporate office facilities under noncancelable operating leases for varying periods through 2019. The Company has also entered into

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capital lease obligations, with varying interest rates from 1.8% to 9.0%, a portion of which are secured by the related computer equipment and software as of December 31, 2011.

In 2011, the Company entered into a \$3,100,000 financing arrangement for computer software, accounted for as a capital lease, with minimum quarterly payments scheduled through 2014. In connection with this transaction, the Company also has minimum obligations for related maintenance and support of \$2,611,000 over the same period. Such obligation for maintenance and support is recorded in current and other noncurrent liabilities at December 31, 2011 and March 31, 2012.

The following are the minimum annual lease payments due under these leases at December 31, 2011:

| | Operating Leases | Capital Leases |
|---------------------------------------|---------------------|-------------------|
| | (in thousands) | |
| 2012 | \$ 2,733 | \$ 2,093 |
| 2013 | 2,309 | 1,370 |
| 2014 | 1,550 | 1,078 |
| 2015 | 1,403 | — |
| 2016 | 1,443 | — |
| 2017 and thereafter | 1,446 | — |
| Total minimum lease payments | <u>\$10,884</u> | 4,541 |
| Less amount representing interest | | (148) |
| Present value of minimum payments | | 4,393 |
| Less current portion | | (1,987) |
| Capital lease obligations, noncurrent | | <u>\$ 2,406</u> |

Rent expense was \$3,240,000, \$3,339,000 and \$3,376,000 for the years ended December 31, 2009, 2010 and 2011, respectively, and \$548,000 and \$679,000 for the three months ended March 31, 2011 and 2012, respectively. Although certain of the operating lease agreements provide for escalating rent payments over the terms of the leases, rent expense under these agreements is recognized on a straight-line basis. As of December 31, 2010 and 2011, and March 31, 2012 the Company has accrued \$491,000, \$346,000 and \$307,000, respectively, of deferred rent related to these agreements, which is reflected in other noncurrent liabilities in the accompanying consolidated balance sheets.

Indemnifications

The Company indemnifies customers from certain liabilities arising from potential infringement of intellectual property rights, as well as potential damages caused by limited product defects. The Company has not recorded any liability in connection with such indemnifications, as it believes that the maximum amount of future payments is not material and the likelihood of incurring such payments is remote.

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Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a liability for such matters when it is probable a loss has been incurred and such loss can be reasonably estimated. In the opinion of management, there are no pending claims at December 31, 2010 or 2011, or March 31, 2012 of which the outcome is expected to result in a material adverse effect on the financial position or results of operations of the Company.

NOTE 6. Stockholders' Equity**Common Stock**

The Company had reserved shares of common stock for future issuance as follows:

| | <u>December 31,</u> | | <u>March 31,</u> |
|-----------------------------------------------------------------|---------------------|--------------------|--------------------|
| | <u>2010</u> | <u>2011</u> | <u>2012</u> |
| | | | (unaudited) |
| Options outstanding under the stock option plan | 56,008,968 | 63,120,607 | 63,735,536 |
| Options available for future grants under the stock option plan | 4,459,466 | 8,030,736 | 6,951,509 |
| Convertible preferred stock outstanding | 175,624,751 | 175,973,235 | 175,973,235 |
| Warrants to purchase convertible preferred stock | 348,484 | — | — |
| Total shares reserved for future issuance | <u>236,441,669</u> | <u>247,124,578</u> | <u>246,660,280</u> |

Convertible Preferred Stock

The Company is authorized to issue 176,400,000 shares of preferred stock with a par value of \$0.001 per share. The Company has designated 48,079,860 of the authorized shares as Series A Preferred Stock, 110,314,114 of the authorized shares as Series B Preferred Stock, and 18,006,026 of the authorized shares as Series C Preferred Stock (cumulatively referred to as "Series Preferred").

During 2000 and 2001, the Company issued 14,981,415 shares and 5,750,000 shares, respectively, of Series A Preferred Stock at an issuance price of \$1.40 per share.

During 2003, the Company issued 110,314,114 shares of Series B Preferred Stock at an issuance price of \$0.26 per share. Certain of these shares were issued upon the conversion of the Company's then existing notes payable and related accrued interest at a conversion price per share equal to the price paid by other investors that purchased Series B Preferred Stock for cash.

In connection with the issuance of the Series B Preferred Stock in 2003, holders of Series A Preferred Stock were entitled to additional shares of Series A Preferred Stock in accordance with the antidilution provisions of the Company's amended certificate of incorporation. The additional shares issued from the recapitalization resulted in a decrease to the average price of Series A Preferred Stock from \$1.40 per share at issuance to \$0.60 per share.

During 2004, the Company issued 17,296,433 shares of Series C Preferred Stock at an issuance price of \$0.3758 per share.

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Dividends

The holders of Series Preferred are entitled to receive dividends, as may be declared by the Board of Directors, at the rate of eight percent of the original issuance price, as adjusted for any stock dividends, combinations, splits, recapitalizations and the like, in preference to holders of any other capital stock. Holders of Series C Preferred Stock are entitled to receive dividends in preference to holders of Series A Preferred Stock and Series B Preferred Stock. Further, holders of Series B Preferred Stock are entitled to receive dividends in preference to holders of Series A Preferred Stock. Dividends are noncumulative. To date, no dividends have been declared, and there are no dividends in arrears as of December 31, 2011 and March 31, 2012.

Conversion

Any share of Series Preferred is convertible at any time, at the option of holder, into fully paid and nonassessable shares of common stock. The number of shares of common stock to which a holder of Series Preferred is entitled upon conversion is the product obtained by multiplying the conversion rate by the number of shares being converted, subject to certain antidilution provisions. The conversion rate is the quotient obtained by dividing the original issuance price by the conversion price. The conversion price is the original issuance price, as adjusted from time to time due to any recapitalizations, dividends, or distributions. As of December 31, 2011 and March 31, 2012, Series Preferred shares are convertible at a ratio of 1-to-1 into common stock.

Each share of Series Preferred automatically converts into shares of common stock at the effective conversion rate immediately upon the earlier to occur of (i) the Company's sale of its common stock in a bona fide firm commitment underwriting pursuant to a registration statement filed under the Securities Act of 1933, as amended, at the public offering price of not less than \$1.20 per share (as adjusted to reflect subsequent stock dividends, stock splits, or recapitalizations) and \$20 million in the aggregate or (ii) the date specified by written consent of agreement of the holders of a majority of the outstanding shares of Series C Preferred Stock.

Liquidation Rights

Initial Distribution—Series C Preferred

In the event of any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, the holders of Series C Preferred Stock are entitled to receive a liquidation payment prior and in preference to any distribution of any of the assets of the Company to holders of Series B Preferred Stock, Series A Preferred Stock, and common stock by reason of their ownership. The liquidation rights will be in an amount per share of Series C Preferred Stock equal to the original issuance price, adjusted for any stock dividends, combinations, or splits with respect to such shares and amounts equal to declared but unpaid dividends on such shares. At liquidation, if the assets of the Company are insufficient to make payment in full to all holders of Series C Preferred Stock outstanding at that date, then such assets shall be distributed among the holders of Series C Preferred Stock, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

Secondary Distribution—Series B Preferred

After payment of the full liquidation preference of the Series C Preferred Stock, holders of Series B Preferred Stock are entitled to receive a liquidation payment prior and in preference to any

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distribution of any of the assets of the Company to holders of Series A Preferred Stock and common stock. The liquidation rights will be in an amount per share of Series B Preferred Stock equal to the original issuance price, adjusted for any stock dividends, combinations, or splits with respect to such shares and amounts equal to declared but unpaid dividends on such shares. At liquidation, if the remaining assets of the Company are insufficient to make payment in full to all holders of Series B Preferred Stock outstanding at that date, then such assets shall be distributed among the holders of Series B Preferred Stock, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

Tertiary Distribution—Series A Preferred

After full payment of the liquidation preference of the Series C Preferred Stock and Series B Preferred Stock, the holders of Series A Preferred Stock are entitled to receive a liquidation payment prior and in preference to any distribution of any assets of the Company to holders of common stock. The liquidation rights will be in an amount per share of Series A Preferred Stock equal to the original issuance price, adjusted for any stock dividends, combinations, or splits with respect to such shares and amounts equal to declared but unpaid dividends on such shares. At liquidation, if the remaining assets of the Company are insufficient to make payment in full to all holders of Series A Preferred Stock outstanding at that date, then such assets shall be distributed among the holders of Series A Preferred, ratably in proportion to the full amounts to which they would otherwise be entitled.

Remaining Assets Distribution—Common Stock

After full payment of the liquidation preference of the Series Preferred stockholders, any remaining assets of the Company legally available shall be distributed among the holders of common stock on a pro rata basis based on the number of shares of common stock held by each.

Warrants

In connection with the issuance of promissory notes in July 2005, the Company granted warrants to purchase 615,089 shares of Series C Preferred Stock at an exercise price of \$0.3658 per share. The warrants were sold to the note holders at a purchase price of \$0.01 per share and have an expiration date in July 2015. In 2007 and 2011, 307,544 and 307,545 shares of Series C Preferred Stock were purchased, respectively, upon exercise of these warrants. No warrants are exercisable or outstanding as of December 31, 2011 and March 31, 2012.

Also in connection with the notes, in May 2006, the Company granted warrants to purchase 81,877 shares of Series C Preferred Stock at an exercise price of \$0.3758 per share with an expiration date in May 2016. In 2007 and 2011, 40,938 and 40,939 shares of Series C Preferred Stock had been purchased, respectively, upon exercise of these warrants. No warrants are exercisable or outstanding as of December 31, 2011 and March 31, 2012.

Voting

The holder of each share of Series Preferred is entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock can be converted.

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NOTE 7. Employee Stock and Benefit Plans**Stock Options**

Under the 2000 Equity Incentive Plan (the "Plan"), the Company has been authorized to grant to eligible participants either incentive stock options ("ISOs") or nonstatutory stock options ("NSOs") to purchase up to 110,878,566 shares of common stock. The ISOs may be granted at a price per share not less than the fair market value at the date of grant. The NSOs may be granted at a price per share not less than 85% of the fair market value at the date of grant. Options granted to date are immediately exercisable, and unvested shares are subject to repurchase by the Company.

Options and unvested shares granted generally vest over a period of up to four years, with a maximum term of ten years. 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. At December 31, 2010 and 2011, and March 31, 2012, there were 269,375, 764,390 and 83,140 shares, respectively, that were subject to the Company's right to repurchase at the original purchase price. Shares repurchased by the Company are added to the pool of options available for future grant. The Company repurchased 1,368,764, 10,001 and 600,000 unvested common shares in the years ended December 31, 2010 and 2011 and the three months ended March 31, 2012, respectively. No shares were repurchased in 2009. The amounts paid for these shares purchased under an early exercise of stock options are not reported as a component of stockholders' equity (deficit) until those shares vest. The amounts received in exchange for these shares totaling \$79,000, \$414,000 and \$31,000 as of December 31, 2010 and 2011, and March 31, 2012, respectively, have been 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.

Common shares purchased under the Plan are subject to certain restrictions, including the right of first refusal by the Company for sale or transfer of these shares to third parties. The Company's right of first refusal terminates upon completion of an initial public offering of common stock.

Stock-based employee compensation is included in the consolidated statements of income as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|------------------------------------------------|-------------------------|-----------------------|-----------------------|---------------------------------|----------------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Cost of revenues | \$ 45 | \$ 77 | \$ 139 | \$ 31 | \$ 54 |
| Research and development | 308 | 346 | 458 | 101 | 139 |
| Sales and marketing | 263 | 460 | 579 | 111 | 175 |
| General and administrative | 451 | 869 | 811 | 200 | 242 |
| Total stock-based employee compensation | <u>\$1,067</u> | <u>\$1,752</u> | <u>\$1,987</u> | <u>\$ 443</u> | <u>\$ 610</u> |

Compensation cost is recognized on a straight-line basis over the service period, based on awards ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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As of December 31, 2011 and March 31, 2012, the Company had \$4,832,000 and \$4,694,000, respectively, of total unrecognized employee compensation cost related to nonvested awards that it expects to recognize over a weighted-average period of 3 years.

The fair value of each option granted to employees is estimated on the date of grant using the Black-Scholes option-pricing model based on the following assumptions:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------|-------------------------|--------------|--------------|------------------------------|--------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| Expected term (in years) | 5.7 | 5.5 | 5.6 | 5.6 | 5.3 to 6.0 |
| Volatility | 51% | 57% to 58% | 55% | 55% | 53% |
| Risk-free interest rate | 1.7% to 2.7% | 1.1% to 2.3% | 0.9% to 2.3% | 2.2% | 0.7% to 0.9% |
| 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. Volatility is based on historical volatility of several public entities that are similar to the Company, as the Company does not have sufficient historical transactions in its own shares on which to base expected volatility. The Company has not historically issued any dividends and does not expect to in the future.

The Company records compensation representing the fair value of stock options granted to non-employees. Stock-based non-employee compensation was \$21,000, \$103,000 and \$101,000 for the years ended December 31, 2009, 2010 and 2011, respectively, and \$33,000 and \$60,000 for the three months ended March 31, 2011 and 2012, respectively. These options were valued using a Black-Scholes valuation method with the following assumptions:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------|-------------------------|--------------|--------------|------------------------------|--------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| Expected term (in years) | 5.7 | 5.5 | 5.6 | 5.6 | 6.0 |
| Volatility | 51% | 57% to 58% | 55% | 55% | 53% |
| Risk-free interest rate | 1.7% to 2.7% | 1.1% to 2.6% | 0.8% to 2.3% | 2.2% | 0.7% to 0.9% |
| Dividend yield | — | — | — | — | — |

Stock-based non-employee compensation is recognized over the vesting periods of the options. The value of options granted to non-employees is periodically remeasured as they vest over a performance period.

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A summary of the Company's stock option activity is as follows:

| | Outstanding Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value (in thousands) |
|--------------------------------------------------------|-----------------------|------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------|
| Balance as of December 31, 2008 | 33,758,267 | \$ 0.18 | 5.8 | \$ 3,214 |
| Granted | 25,135,471 | 0.34 | | |
| Exercised | (1,530,625) | 0.13 | | |
| Canceled | (5,233,054) | 0.24 | | |
| Balance as of December 31, 2009 | 52,130,059 | 0.26 | 6.6 | 6,486 |
| Granted | 13,577,074 | 0.41 | | |
| Exercised | (3,178,230) | 0.19 | | |
| Canceled | (6,519,935) | 0.35 | | |
| Balance as of December 31, 2010 | 56,008,968 | 0.29 | 6.4 | 6,964 |
| Granted | 18,168,627 | 0.51 | | |
| Exercised | (4,327,092) | 0.31 | | |
| Canceled | (6,729,896) | 0.39 | | |
| Balance as of December 31, 2011 | 63,120,607 | 0.34 | 6.9 | 16,012 |
| Granted (unaudited) | 2,648,656 | 0.67 | | |
| Exercised (unaudited) | (1,064,298) | 0.16 | | |
| Canceled (unaudited) | (969,429) | 0.49 | | |
| Balance as of March 31, 2012 (unaudited) | 63,735,536 | 0.35 | 7.1 | 20,348 |
| Vested and expected to vest—December 31, 2011 | 57,013,529 | 0.32 | 7.0 | |
| Exercisable—December 31, 2011 | 63,051,332 | 0.34 | 7.2 | |
| Vested and expected to vest—March 31, 2012 (unaudited) | 58,187,472 | 0.34 | 7.0 | |
| Exercisable—March 31, 2012 (unaudited) | 63,691,573 | 0.35 | 7.1 | |

The following tables summarize the outstanding and vested stock options at December 31, 2011:

| Exercise Price | Outstanding | | | Vested | |
|-----------------|---------------------|-------------------------------------------------------|-----------------------------------------------------------------|---------------------|-------------------------------------------------------|
| | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life (Years) | Number of Shares | Weighted Average Exercise Price Per Share |
| \$0.01 - \$0.14 | 5,911,165 | \$ 0.12 | 4.1 | 5,911,165 | \$ 0.12 |
| \$0.15 - \$0.24 | 13,495,953 | 0.19 | 5.0 | 13,495,953 | 0.19 |
| \$0.25 - \$0.29 | 8,306,081 | 0.28 | 7.0 | 7,008,573 | 0.28 |
| \$0.30 - \$0.39 | 12,181,354 | 0.38 | 7.9 | 3,420,887 | 0.38 |
| \$0.40 - \$0.49 | 14,945,308 | 0.43 | 8.8 | 4,204,541 | 0.42 |
| \$0.50 - \$0.59 | 8,280,746 | 0.55 | 9.7 | 178,742 | 0.53 |
| | <u>63,120,607</u> | 0.34 | 7.2 | <u>34,219,861</u> | 0.25 |

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The following tables summarize the outstanding and vested stock options at March 31, 2012:

| Exercise Price | Outstanding | | | Vested | |
|-----------------|-------------------|-------------------------------------------|--------------------------------------------------------------------|-------------------|-------------------------------------------|
| | Number of Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Life (Years) (unaudited) | Number of Shares | Weighted Average Exercise Price Per Share |
| \$0.01 - \$0.14 | 5,490,031 | \$ 0.13 | 4.0 | 5,490,031 | \$ 0.13 |
| \$0.15 - \$0.24 | 13,147,577 | 0.19 | 4.8 | 13,147,577 | 0.19 |
| \$0.25 - \$0.29 | 8,154,469 | 0.28 | 6.7 | 7,467,109 | 0.28 |
| \$0.30 - \$0.39 | 11,954,010 | 0.38 | 7.7 | 4,087,701 | 0.38 |
| \$0.40 - \$0.49 | 14,420,047 | 0.43 | 8.5 | 5,126,107 | 0.42 |
| \$0.50 - \$0.67 | 10,569,402 | 0.58 | 9.5 | 397,876 | 0.56 |
| | <u>63,735,536</u> | 0.35 | 7.1 | <u>35,716,401</u> | 0.26 |

The weighted-average grant date fair value of the Company's stock options granted during the years ended December 31, 2009, 2010 and 2011 and for the three months ended March 31, 2011 and 2012 was \$0.17, \$0.21, \$0.26, \$0.23, and \$0.33 respectively. The aggregate grant date fair value of the Company's stock options granted during the years ended December 31, 2009, 2010 and 2011 and for the three months ended March 31, 2011 and 2012 was \$4,179,000, \$2,904,000, \$4,657,000, and \$1,329,000 and \$881,000, respectively.

The intrinsic value of options exercised was \$235,000, \$698,000 and \$811,000 during the years ended December 31, 2009, 2010 and 2011, respectively, and \$144,000 and \$528,000 for the three months ended March 31, 2011 and 2012, respectively.

401(k) Plan

The Company's 401(k) Plan (the "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. To date, the Company has not made any contributions to the 401(k) Plan.

NOTE 8. Other Income (Expense), Net

Other income (expense), net consists of the following:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---------------------------------|-------------------------|----------------|----------------|------------------------------|----------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | | | | (unaudited) | |
| | | | | (in thousands) | |
| Foreign exchange gains (losses) | \$ 128 | \$(372) | \$(338) | \$ 394 | \$ (4) |
| Other income (expense) | 2 | (11) | (8) | 4 | (8) |
| Other income (expense), net | <u>\$ 130</u> | <u>\$(383)</u> | <u>\$(346)</u> | <u>\$ 398</u> | <u>\$ (12)</u> |

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NOTE 9. Income Taxes

The Company's geographical breakdown of income (loss) before provision for income taxes is as follows:

| | Year Ended December 31, | | |
|-------------------------------------------------|-------------------------|---------------|----------------|
| | 2009 | 2010 | 2011 |
| | (in thousands) | | |
| Domestic | \$ 323 | \$ (21) | \$1,593 |
| Foreign | 756 | 664 | 777 |
| Income (loss) before provision for income taxes | <u>\$1,079</u> | <u>\$ 643</u> | <u>\$2,370</u> |

The provision for income taxes consists of the following:

| | Year Ended December 31, | | |
|----------------------------------|-------------------------|---------------|---------------|
| | 2009 | 2010 | 2011 |
| | (in thousands) | | |
| Current | | | |
| Federal | \$ (22) | \$ (9) | \$ 45 |
| State | 31 | 37 | 112 |
| Foreign | 211 | 208 | 259 |
| Total current provision | <u>220</u> | <u>236</u> | <u>416</u> |
| Total provision for income taxes | <u>\$ 220</u> | <u>\$ 236</u> | <u>\$ 416</u> |

The reconciliation of the statutory federal income tax rate of 34% to the Company's effective tax rate is as follows:

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|--------------|--------------|
| | 2009 | 2010 | 2011 |
| Federal statutory rate | 34.0% | 34.0% | 34.0% |
| State taxes | 4.7 | 3.9 | 3.5 |
| Stock-based compensation | 28.8 | 81.3 | 19.4 |
| Foreign source income | 9.9 | 18.0 | 1.4 |
| Change in valuation allowance | (56.3) | (102.3) | (44.0) |
| Other | (0.7) | 1.8 | 3.3 |
| Provision for income taxes | <u>20.4%</u> | <u>36.7%</u> | <u>17.6%</u> |

The income tax provision for the three months ended March 31, 2011 and 2012 was \$128,000 and \$78,000, respectively.

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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:

| | At December 31, | |
|-----------------------------------------------|-----------------|--------------|
| | 2010 | 2011 |
| | (in thousands) | |
| Deferred tax assets | | |
| Net operating loss carryforwards | \$ 22,239 | \$ 22,584 |
| Research and development credit carryforwards | 3,193 | 3,744 |
| Accrued liabilities | 359 | 409 |
| Deferred revenues | 634 | 1,670 |
| Deferred rent | 165 | 112 |
| Fixed assets | 247 | — |
| Intangible assets | 192 | 198 |
| Stock-based compensation | 343 | 506 |
| Foreign | 24 | 30 |
| Other | 284 | 463 |
| Gross deferred tax assets | 27,680 | 29,716 |
| Valuation allowance | (27,568) | (26,766) |
| Net deferred tax assets | 112 | 2,950 |
| Deferred tax liabilities | | |
| Fixed assets | — | (2,884) |
| Total deferred tax liabilities | — | (2,884) |
| Net deferred tax assets | <u>\$ 112</u> | <u>\$ 66</u> |

Current and non-current deferred tax assets and liabilities included in the consolidated balance sheets are recorded as follows:

| | At December 31, | |
|-------------------------------------|-----------------|--------------|
| | 2010 | 2011 |
| | (in thousands) | |
| Current deferred tax assets | \$ 4 | \$ 69 |
| Current deferred tax liabilities | — | — |
| Noncurrent deferred tax assets | 108 | — |
| Noncurrent deferred tax liabilities | — | (3) |
| Net deferred tax assets | <u>\$ 112</u> | <u>\$ 66</u> |

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. As of December 31, 2011, we have provided a valuation allowance for our deferred tax assets that we believe are more likely than not unrealizable. The valuation allowance decreased by \$0.8 million for the year ended December 31, 2011 and increased by \$0.2 million for the year ended December 31, 2010.

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At December 31, 2011, the Company had federal and state net operating loss carryforwards of approximately \$61.2 million and \$29.5 million, respectively, available to reduce federal and state taxable income. The Company's federal net operating losses expire in the years 2021 to 2030, and its state net operating losses expire from 2012 to 2029. Utilization of the Company's net operating loss carryforwards may be subject to a substantial 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, 2011, the Company had federal and state research and development credits of \$2.2 million and \$1.5 million, respectively. Federal research and development credits expire in the years 2017 to 2026. State research and development credits do not expire.

U.S. income taxes were not provided on undistributed earnings from investments in certain non-U.S. subsidiaries. Determination of the amount of unrecognized deferred tax liability for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable. The Company currently intends to continue to reinvest these earnings in operations outside of the United States.

On January 1, 2009, the Company adopted authoritative accounting guidance that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the accounting and financial statement disclosure of tax positions taken or expected to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step requires the Company to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step requires the Company to recognize in the financial statement each tax position that meets the more likely than not criteria, measured at the amount of benefit that has a greater than fifty percent likelihood of being realized.

A reconciliation of the Company's unrecognized tax benefits is as follows:

| | Year Ended December 31, | | |
|--------------------------------------------------|-------------------------|-----------------|----------------|
| | 2009 | 2010 | 2011 |
| | (in thousands) | | |
| Unrecognized tax benefits beginning balance | \$4,471 | \$ 4,495 | \$3,038 |
| Gross increase for tax positions of prior years | 30 | 58 | 87 |
| Gross decrease for tax positions of prior years | (561) | (1,791) | (130) |
| Gross increase for tax positions of current year | 555 | 276 | 242 |
| Lapse of statute of limitations | — | — | (65) |
| Total unrecognized tax benefits | <u>\$4,495</u> | <u>\$ 3,038</u> | <u>\$3,172</u> |

The unrecognized tax benefits, if recognized and in absence of full valuation allowance, would impact the income tax provision by \$1.9 million, \$0.9 million and \$1.6 million as of December 31, 2009 and 2010 and 2011, respectively.

The Company has elected to include interest and penalties as a component of income tax expense. As of December 31, 2010 and 2011, the Company had accrued approximately \$82,000 and

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\$99,000, respectively, for the payment of interest and penalties relating to the unrecognized tax benefits. The Company recognized interest and penalties of \$28,000, \$30,000, and \$17,000 for the years ended December 31, 2009, 2010 and 2011, respectively. The Company anticipates that the amount of unrecognized tax benefits that will significantly decrease due to closed tax periods in foreign jurisdictions during the next 12 months is approximately \$560,000.

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 2005 to 2010 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax. As of December 31, 2011, the Company was not under examination by the Internal Revenue Service or any state tax jurisdictions. However, the Company is currently under audit in France for the years 2002 through 2010.

On February 20, 2009, the California 2009-2010 Budget Bill (S.B. X3 15) was signed into law. As of January 1, 2011, the Company intends to make the annual, irrevocable election to use a single sales factor for apportionment in the state of California. Also effective in 2011, the cost of performance provisions with respect to sales of other than tangible property are repealed. Instead, services are sourced to the location where the services are used. The Company estimates that the combination of these two changes will likely result in a decrease to the effective California tax rate beginning in 2011. Accordingly, by applying the lower tax rate to future tax benefits, the Company reduced the balance of deferred tax assets by approximately \$260,000.

NOTE 10. Segment Information and Information about Geographic Area

The Company operates in one segment. The Company's chief operating decision maker ("CODM") is the Chairman, President 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. Revenues by geographic area, based on the location of the customer, are as follows:

| | <u>Year Ended December 31,</u> | | | <u>Three Months Ended March 31,</u> | |
|----------------|--------------------------------|-----------------|-----------------|-------------------------------------|------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2011</u> | <u>2012</u> |
| | | | | (in thousands) | |
| | | | | (unaudited) | |
| United States | \$39,856 | \$43,669 | \$51,044 | \$ 11,882 | \$ 14,212 |
| Other | 17,569 | 21,763 | 25,168 | 5,808 | 6,979 |
| Total revenues | <u>\$57,425</u> | <u>\$65,432</u> | <u>\$76,212</u> | <u>\$ 17,690</u> | <u>\$ 21,191</u> |

As of December 31, 2010 and 2011, and March 31, 2012, property and equipment locations outside the United States were not material.

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NOTE 11. Net Income (Loss) Per Share Attributable to Common Stockholders and Pro Forma Net Income (Loss) Per Share Attributable to Common Stockholders

The computations for basic and diluted net income (loss) per share attributable to common stockholders are as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|---------------------------------------------------------------------------------------------------------------------|-------------------------|----------------|-----------------|------------------------------|------------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Numerator: | | | | | |
| Net income (loss) | \$ 859 | \$ 407 | \$ 1,954 | \$ 1,046 | \$ (285) |
| Net income attributable to participating securities | (688) | (321) | (1,518) | (819) | — |
| Net income (loss) attributable to common stockholders – basic | 171 | 86 | 436 | 227 | (285) |
| Undistributed earnings reallocated to participating securities | 681 | 320 | 1,516 | 818 | — |
| Net income (loss) attributable to common stockholders – diluted | <u>\$ 852</u> | <u>\$ 406</u> | <u>\$ 1,952</u> | <u>\$ 1,045</u> | <u>\$ (285)</u> |
| Denominator: | | | | | |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders – basic | 43,995 | 47,057 | 50,529 | 48,820 | 52,601 |
| Effect of potentially dilutive securities: | | | | | |
| Convertible preferred stock | 175,625 | 175,625 | 175,903 | 175,691 | — |
| Common stock options | 8,424 | 12,819 | 15,364 | 13,837 | — |
| Warrants | — | 35 | 18 | 10 | — |
| Contingently issuable shares related to an acquisition | — | 81 | 122 | 122 | — |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders – diluted | <u>228,044</u> | <u>235,617</u> | <u>241,936</u> | <u>238,480</u> | <u>52,601</u> |
| Net income (loss) per share attributable to common stockholders: | | | | | |
| Basic | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |
| Diluted | <u>\$ 0.00</u> | <u>\$ 0.00</u> | <u>\$ 0.01</u> | <u>\$ 0.00</u> | <u>\$ (0.01)</u> |

Potentially dilutive securities not included in the calculation of diluted net income (loss) per share because doing so would be antidilutive are as follows:

| | Year Ended December 31, | | | Three Months Ended March 31, | |
|--------------------------------------------------------|-------------------------|---------------|---------------|------------------------------|----------------|
| | 2009 | 2010 | 2011 | 2011 | 2012 |
| | (in thousands) | | | | |
| Convertible preferred stock | — | — | — | — | 175,973 |
| Common stock options | 13,910 | 19,484 | 27,581 | 26,323 | 63,962 |
| Warrants | 348 | — | — | — | — |
| Contingently issuable shares related to an acquisition | — | — | — | — | 122 |
| | <u>14,258</u> | <u>19,484</u> | <u>27,581</u> | <u>26,323</u> | <u>240,057</u> |

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The computations for pro forma basic and diluted net income (loss) per share attributable to common stockholders are as follows:

| | Year Ended December 31, 2011 | Three Months Ended March 31, 2012 (unaudited) |
|-----------------------------------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|
| | (in thousands, except per share data) | |
| Numerator: | | |
| Net income (loss) | \$ 1,954 | \$ (285) |
| Net income attributable to participating securities | (2) | — |
| Net income (loss) attributable to common stockholders—basic | <u>\$ 1,952</u> | <u>\$ (285)</u> |
| Undistributed earnings reallocated to participating securities | — | — |
| Net income (loss) attributable to common stockholders—diluted | <u>\$ 1,952</u> | <u>\$ (285)</u> |
| Denominator: | | |
| Weighted-average shares used in computing net income (loss) per share attributable to common stockholders—basic | 50,529 | 52,601 |
| Pro forma adjustment to reflect assumed weighted-average effect of conversion of convertible preferred stock | <u>175,903</u> | <u>175,973</u> |
| Pro forma weighted-average shares used in computing net income (loss) per share attributable to common stockholders—basic | 226,432 | 228,574 |
| Pro forma adjustments to reflect effect of potentially dilutive securities: | | |
| Common stock options | 15,364 | — |
| Warrants | 18 | — |
| Contingently issuable shares related to an acquisition | <u>122</u> | <u>—</u> |
| Pro forma weighted-average shares used in computing net income (loss) per share attributable to common stockholders—diluted | <u>241,936</u> | <u>228,574</u> |
| Pro forma net income (loss) per share attributable to common stockholders | | |
| Basic | <u>\$ 0.01</u> | <u>\$ (0.00)</u> |
| Diluted | <u>\$ 0.01</u> | <u>\$ (0.00)</u> |

Report of Independent Certified Public Accountants

Board of Directors
Nemean Networks, LLC

We have audited the accompanying balance sheets of Nemean Networks, LLC (a Delaware limited liability company) (a development stage company) as of August 31, 2010, and the related statements of operations, members' equity, and cash flows for the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nemean Networks, LLC as of August 31, 2010, and the results of its operations and its cash flows for the eight month period ended August 31, 2010 and the period from May 18, 2007 (date of inception) through August 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP
Madison, Wisconsin
November 2, 2010

NEMEAN NETWORKS, LLC
(A Development Stage Company)

BALANCE SHEET

| | <u>August 31,</u> <u>2010</u> |
|---------------------------------------------------------------------------------|----------------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 27,740 |
| Prepaid expenses | 5,089 |
| Security deposit | 1,816 |
| Total current assets | <u>34,645</u> |
| Property and equipment—at cost | |
| Computer equipment | 116,092 |
| Office furniture and equipment | 30,089 |
| Total property and equipment | 146,181 |
| Less accumulated depreciation | 97,785 |
| Property and equipment, net | 48,396 |
| Intangible assets, less accumulated amortization of \$21,377 at August 31, 2010 | 53,623 |
| Total assets | <u>\$ 136,664</u> |
| LIABILITIES AND MEMBERS' EQUITY | |
| Current liabilities | |
| Accounts payable | \$ 20,592 |
| Accrued liabilities | 75,567 |
| Total current liabilities | 96,159 |
| Commitments and contingencies | |
| Members' equity | |
| Members' capital | 2,942,968 |
| Deficit accumulated during the development stage | (2,902,463) |
| Total members' equity | 40,505 |
| Total liabilities and members' equity | <u>\$ 136,664</u> |

The accompanying notes are an integral part of these statements.

NEMEAN NETWORKS, LLC
(A Development Stage Company)
STATEMENTS OF OPERATIONS

| | Eight months ended August 31, 2010 | Cumulative totals for the period from May 18, 2007 (date of inception) through August 31, 2010 |
|------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Revenues | \$ — | \$ — |
| Operating expenses | | |
| General and administrative | 221,510 | 904,466 |
| Research and development | 398,784 | 2,008,856 |
| Total operating expenses | <u>620,294</u> | <u>2,913,322</u> |
| Operating loss | (620,294) | (2,913,322) |
| Other income (expense) | | |
| Interest income | 380 | 27,169 |
| Interest expense | — | (16,310) |
| Total other income (expense) | <u>380</u> | <u>10,859</u> |
| Net loss | <u>\$ (619,914)</u> | <u>\$ (2,902,463)</u> |

The accompanying notes are an integral part of these statements.

NEMEAN NETWORKS, LLC
(A Development Stage Company)

STATEMENTS OF MEMBERS' EQUITY

For the eight month period ended August 31, 2010 and for the period
from May 18, 2007 (date of inception) through August 31, 2010

| | Member units | | Deficit accumulated during the development stage | Members' equity |
|-----------------------------------------------|------------------|--------------------|--------------------------------------------------------------|--------------------|
| | Units | Amount | | |
| Balances at May 18, 2007, (date of inception) | — | \$ — | \$ — | \$ — |
| Issuance of founder units at \$.001 | 703,333 | 703 | — | 703 |
| Issuance of member units at \$1.00 | 950,000 | 950,000 | — | 950,000 |
| Unit issuance costs | — | (40,031) | — | (40,031) |
| Conversion of notes payable | 550,000 | 550,000 | — | 550,000 |
| Net loss | — | — | (290,127) | (290,127) |
| Balances at December 31, 2007 | 2,203,333 | 1,460,672 | (290,127) | 1,170,545 |
| Issuance of member units at \$1.00 | 700,000 | 700,000 | — | 700,000 |
| Exercise of member unit options at \$1.00 | 60,000 | 60,000 | — | 60,000 |
| Unit compensation expense | — | 91,820 | — | 91,820 |
| Net loss | — | — | (1,006,575) | (1,006,575) |
| Balances at December 31, 2008 | 2,963,333 | 2,312,492 | (1,296,702) | 1,015,790 |
| Issuance of member units at \$1.00 | 269,426 | 269,426 | — | 269,426 |
| Unit issuance cost | — | (17,722) | — | (17,722) |
| Unit compensation expense | — | 62,331 | — | 62,331 |
| Net loss | — | — | (985,847) | (985,847) |
| Balances at December 31, 2009 | 3,232,759 | 2,626,527 | (2,282,549) | 343,978 |
| Issuance of member units at \$1.00 | 317,266 | 317,266 | — | 317,266 |
| Unit issuance costs | — | (6,750) | — | (6,750) |
| Unit compensation expense | — | 5,925 | — | 5,925 |
| Net loss | — | — | (619,914) | (619,914) |
| Balances at August 31, 2010 | <u>3,550,025</u> | <u>\$2,942,968</u> | <u>\$ (2,902,463)</u> | <u>\$ 40,505</u> |

The accompanying notes are an integral part of these statements.

NEMEAN NETWORKS, LLC
(A Development Stage Company)
STATEMENTS OF CASH FLOWS

| | Eight months ended August 31, 2010 | Cumulative totals for the period from May 18, 2007 (date of inception) through August 31, 2010 |
|-----------------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Cash flows from operating activities | | |
| Net loss | \$(619,914) | \$ (2,902,463) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 32,595 | 119,162 |
| Unit compensation expense | 5,925 | 160,076 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | — | — |
| Prepaid expenses | 2,636 | (5,089) |
| Security deposit | — | (1,816) |
| Accounts payable | 12,496 | 20,592 |
| Accrued liabilities | 18,109 | 75,567 |
| Net cash used in operating activities | (548,153) | (2,533,971) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (3,343) | (146,181) |
| Cash flows from financing activities | | |
| Proceeds from long-term obligations | — | 550,000 |
| Payments on long-term obligations | — | (75,000) |
| Proceeds from exercise of member unit options | — | 60,000 |
| Proceeds from issuance of member units, net of issuance costs | 310,516 | 2,172,892 |
| Net cash provided by financing activities | 310,516 | 2,707,892 |
| Net (decrease) increase in cash and cash equivalents | (240,980) | 27,740 |
| Cash and cash equivalents at beginning of period | 268,720 | — |
| Cash and cash equivalents at end of period | <u>\$ 27,740</u> | <u>\$ 27,740</u> |
| Supplemental disclosure of cash flow information | | |
| Interest paid | <u>\$ —</u> | <u>\$ 16,310</u> |

Supplemental disclosure of non-cash investing and financing activities:

During 2007, long-term obligations of \$550,000 were converted to member units.

During 2007, the Company recorded increases in intangible assets and long-term obligations of \$75,000 related to amounts due to the Wisconsin Alumni Research Foundation ("WARF") for licensing fees.

The accompanying notes are an integral part of these statements.

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period
from May 18, 2007 (date of inception) through August 31, 2010

NOTE 1. NATURE OF OPERATIONS

Nemean Networks, LLC (the "Company") was formed on May 18, 2007 as a Delaware limited liability company and is located in Madison, Wisconsin. The Company is developing network security solutions for detection and awareness of external intrusions to computer networks. The technology utilized by the Company is based on three patents that the Company is licensing from the WARE.

On August 31, 2010, Qualys, Inc. ("Qualys") purchased substantially all of the assets and assumed substantially all of the liabilities of the Company for cash and 250,000 shares of Qualys common stock totaling approximately \$3,700,000. Approximately 62,500 shares of Qualys common stock and \$1,000,000 will be retained by Qualys as an equity hold-back for two years subject to offset by certain losses, as defined in the purchase agreement. As a result of the acquisition, Qualys owns the exclusive rights to the Company's technology, including all patents. The accompanying financial statements reflect the operations of the Company immediately before the acquisition of the Company by Qualys. As a result, the financial statements do not include the effects of the acquisition of the Company's assets or assumption of the Company's liabilities by Qualys.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Development Stage Company

The Company has been in the development stage since its inception on May 18, 2007. The Company's primary activities since inception have been: (i) organizational activities; (ii) research and development; and (iii) raising capital. No revenues have been generated from planned principal operations. As of August 31, 2010, the Company continues to be in the development stage.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of 90 days or less to be cash equivalents.

The Company has cash and cash equivalents deposited in financial institutions in which the balances occasionally exceed the federal government agency ("FDIC") insured limits of \$250,000. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives:

| | |
|--------------------------------|---------|
| Office furniture and equipment | 5 years |
| Computer equipment | 3 years |

Depreciation expense associated with property and equipment was \$27,595 for the eight month period ended August 31, 2010 and \$97,785 for the period from May 18, 2007 (date of inception) through August 31, 2010.

Intangible Assets

Intangible assets consist primarily of costs related to the filing of patents and licensed technology costs.

The costs are capitalized as incurred and amortized over their estimated useful lives of ten years. Total amortization expense was \$5,000 for the eight month period ended August 31, 2010 and \$21,377 for the period from May 18, 2007 (date of inception) through August 31, 2010.

Estimated future amortization expense on amortizable intangible assets as of August 31, 2010 is as follows:

| <u>Years ending December 31,</u> | |
|----------------------------------|-----------------|
| 2011 | \$ 7,500 |
| 2012 | 7,500 |
| 2013 | 7,500 |
| 2014 | 7,500 |
| 2015 | 7,500 |
| Thereafter | <u>16,123</u> |
| | <u>\$53,623</u> |

The Company has evaluated the intangible assets for impairment, noting no impairment as of August 31, 2010.

Research and Development Costs

Research and development costs are expensed in the period incurred.

Unit-Based Compensation

The Company accounts for unit-based payment awards in accordance with ASC 718, *Compensation—Stock Compensation* ("ASC 718"), for its unit option plan which was approved on August 19, 2008.

All unit-based payments, including grants of employee unit options, are measured at fair value and expensed in the statement of operations over the service period (generally the vesting period) of the grant.

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments, which include cash equivalents, accounts payable and accrued liabilities, approximate their fair value at August 31, 2010 due to their short maturities.

NOTE 3. FAIR VALUE MEASUREMENTS

The cash equivalents of the Company are valued in accordance with guidance on fair value. The guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The money market fund is valued at the quoted market value as of the last business day of the Company, as determined based on the market values of the individual investments comprising the fund.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table summarizes financial assets measured at fair value on a recurring basis as of August 31, 2010:

| | Level 1 2010 |
|-------------------|-----------------|
| Money Market Fund | <u>\$10,376</u> |

NOTE 4. LICENSE AGREEMENTS

In October 2007, the Company entered into a license agreement with WARF. The agreement was amended on January 30, 2008 and November 3, 2008. Under this agreement, the Company obtained exclusive rights to various patents and patent applications owned by WARF that will allow the Company to make, use, sell and otherwise distribute products under WARF's patents anywhere in the

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010

world. In consideration for the agreement (as amended), the Company agreed to pay \$75,000 in licensing fees through June 30, 2009. The Company made payments of \$40,000 upon execution of the agreement, \$10,000 during 2008 and \$25,000 during 2009. As of August 31, 2010, there are no remaining amounts due to WARF under the terms of the agreement. The agreement was further amended on August 31, 2010, upon the closing of the acquisition of Nemean by Qualys. Under the amended agreement, Nemean paid WARF \$75,000 on August 31, 2010 in consideration for the assignment of the license agreement to Qualys. Such amount was recorded as an expense in the accompanying statements of operations.

In addition to the license fees, under the terms of the license agreement with WARF, the Company is obligated to pay \$20,000 for each U.S patent filed, \$5,000 for international applications filed under the Patent Cooperation Treaty and \$7,500 for other international patent applications. The Company has accrued \$49,000 for patent costs due to WARF as August 31, 2010.

Under the terms of this agreement (as amended), the Company was obligated to pay royalties based on future sales. Royalties were due at 5% of the selling price of products covered by the WARF license agreement until cumulative Company sales reach \$15,000,000, at which point the royalties would be reduced to 4%. Commencing in 2010, a minimum royalty fee of \$30,000 was due to WARF. This minimum royalty fee obligation was waived pursuant to the August 31, 2010 assignment of the license agreement to Qualys.

NOTE 5. LEASE COMMITMENTS

Operating Lease

The Company leases office space under an operating lease in Madison, Wisconsin. The lease required monthly rental payments of \$3,890 through June 30, 2010. Subsequent to the lease expiring in June 2010, the Company has been paying monthly rental payments of \$4,047 on a month-to-month basis.

Total rental expense under the operating lease was \$31,273 for the eight month period ended August 31, 2010 and \$140,693 for the period from May 18, 2007 (date of inception) through August 31, 2010.

NOTE 6. INCOME TAXES

The Company is organized as a limited liability company and the members of the Company personally report the net earnings or loss of the Company on their individual income tax returns. Accordingly, no provision has been made in the accompanying financial statements for federal and state income taxes.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied the uncertain tax position guidance to all tax positions for which the statute of limitations remained open. The Company operates as a partnership for federal tax purposes, thus it is generally not subject to income tax. As a result, there are no uncertain tax positions.

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period
from May 18, 2007 (date of inception) through August 31, 2010

All tax years since incorporation in 2007 are open under the statute of limitations. The Company recognizes, if any, interest accrued related to unrecognized tax benefits in interest expense and recognizes penalties in operating expenses for all periods presented.

NOTE 7. EQUITY ISSUANCES

The Company issued 703,333 member units to the founders upon the formation of the Company at \$.001 per unit for total proceeds of \$703.

In December 2007, the Company issued 950,000 member units to investors at \$1 per unit for total proceeds of \$950,000.

In December 2007, \$550,000 in notes payable to debtors were converted to 550,000 member units, valued at \$1 per unit. Interest accrued on these notes was paid in cash to the debtors upon conversion.

In 2009, the Company issued 269,426 member units to investors at \$1 per unit for total proceeds of \$269,426.

In 2010, the Company issued 317,266 member units to investors at \$1 per unit for total proceeds of \$317,266.

NOTE 8. UNIT OPTION PLAN

On August 19, 2008, the Company adopted the 2008 Unit Option Plan (the "Plan"), pursuant to which the Company's Board of Directors may grant unit options to employees, directors, officers and consultants in the form of incentive compensation. The plan authorizes grants of options to purchase a total of 1,200,000 units of the Company. Generally, unit options have ten-year terms and vest ratably on the last day of the calendar year over a three- or four-year term, depending on the terms of the individual agreement. However, in 2008 60,000 options granted were immediately vested. Under the plan, 3,000 unit options were granted in 2010 and 60,000 options have been exercised as of August 31, 2010 since inception.

A summary of the Company's unit option plan is as follows:

| | Eight months ended August 31, 2010 | | May 18, 2007 (date of inception) through August 31, 2010 | |
|--------------------------------------|---------------------------------------|------------------------------------------|-------------------------------------------------------------------|------------------------------------------|
| | Unit options | Weighted average exercise price | Unit options | Weighted average exercise price |
| Outstanding at beginning of period | 290,000 | \$ 1.00 | — | \$ — |
| Granted | 3,000 | 1.00 | 380,500 | 1.00 |
| Exercised | — | — | (60,000) | 1.00 |
| Forfeited | — | — | (27,500) | 1.00 |
| Outstanding at end of period | <u>293,000</u> | \$ 1.00 | <u>293,000</u> | \$ 1.00 |
| Options exercisable at end of period | <u>204,668</u> | \$ 1.00 | <u>204,668</u> | \$ 1.00 |

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010

The following table summarizes additional information as of August 31, 2010:

| Range of exercise price | Outstanding | | | Exercisable | | |
|-------------------------|----------------|--------------------------------------------|---------------------------------|----------------|--------------------------------------------|---------------------------------|
| | Unit options | Average remaining contractual life (years) | Weighted average exercise price | Unit options | Average remaining contractual life (years) | Weighted average exercise price |
| \$1.00 | <u>293,000</u> | <u>8.06</u> | <u>\$ 1.00</u> | <u>204,668</u> | <u>8.08</u> | <u>\$ 1.00</u> |

A summary of the status of the Company's non-vested unit options is as follows:

| | Eight months ended August 31, 2010 | | May 18, 2007 (date of inception) through August 31, 2010 | |
|-----------------------------------|------------------------------------|---------------------------------|----------------------------------------------------------|---------------------------------|
| | Unit options | Weighted average exercise price | Unit options | Weighted average exercise price |
| Non-vested at beginning of period | 98,332 | \$ 1.00 | — | \$ — |
| Granted | 3,000 | 1.00 | 380,500 | 1.00 |
| Vested | (13,000) | 1.00 | (269,668) | 1.00 |
| Forfeited | — | 1.00 | (22,500) | 1.00 |
| Non-vested at end of period | <u>88,332</u> | <u>\$ 1.00</u> | <u>88,332</u> | <u>\$ 1.00</u> |

The Company uses the Black-Scholes option pricing model to value unit options. For options granted, the Company used historical stock prices of companies which it considered to be a peer group as the basis for its volatility assumptions. The assumed risk-free rates were based on U.S. Treasury rates in effect at the time of the grant with a term consistent with the expected option lives. The Company employed the plain-vanilla type method of estimating the expected term of the options as the Company did not have significant historical experience. The expense is being allocated using the straight-line method. For the eight month period ended August 31, 2010, the Company recorded \$1,755 of compensation expense and \$4,170 of consulting expense related to options granted and valued under ASC 718. For the period from May 18, 2007 (date of inception) through August 31, 2010, the Company recorded \$148,200 of compensation expense and \$11,876 of consulting expense related to options granted. At August 31, 2010, the Company had unrecognized expense related to its unit options of \$52,468. The expense is expected to be recognized over the next two years.

The fair value of each option grant for the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010 was estimated at the date of grant using the Black-Scholes option pricing model based on the following assumptions:

| | Eight months ended August 31, 2010 | May 18, 2007 (date of inception) through August 31, 2010 |
|-------------------------|------------------------------------|----------------------------------------------------------|
| Expected life (years) | 6.25 | 6.25 |
| Risk-free interest rate | 2.74% | 2.74% - 3.39% |
| Expected volatility | 60% | 60% |
| Dividend yield | — | — |

NEMEAN NETWORKS, LLC
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

For the eight month period ended August 31, 2010 and for the period
from May 18, 2007 (date of inception) through August 31, 2010

The weighted average grant date fair value of the stock options granted during the period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010 was \$0.59.

NOTE 9. SUBSEQUENT EVENTS

The Company evaluated its August 31, 2010 financial statements for subsequent events through November 2, 2010, the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



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First Analysis Securities Corp.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth all expenses to be paid by us, other than underwriting discounts and commissions, in connection with this offering. All amounts shown are estimates except for the SEC registration fee, the FINRA filing fee and the listing fee.

| | |
|---------------------------------------------------|----------|
| SEC registration fee | \$11,460 |
| FINRA filing fee | 10,500 |
| listing fee | * |
| Printing and engraving | * |
| Legal fees and expenses | * |
| Accounting fees and expenses | * |
| Blue sky fees and expenses (including legal fees) | * |
| Transfer agent and registrar fees | * |
| Miscellaneous | * |
| Total | \$ * |

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a corporation's board of directors to grant, and authorizes a court to award, indemnity to officers, directors and other corporate agents.

Prior to the completion of this offering, we expect to adopt an amended and restated certificate of incorporation, which will become effective immediately prior to the completion of this offering, and which will contain provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except for the following:

- any breach of their duty of loyalty to our company or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 172 of the Delaware General Corporation Law; or
- any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, prior to the completion of this offering, we expect to adopt amended and restated bylaws which will provide that we will indemnify, to the fullest extent permitted by law, any person who is or was a party to or is threatened to be made a party to any action, suit or proceeding by reason of the

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fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws are expected to provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Our amended and restated bylaws will also provide that we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Further, prior to the completion of this offering, we expect to enter into indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements will require us, among other things, to indemnify our directors and executive officers against liabilities that may arise by reason of their status or service. These indemnification agreements will also require us to advance all expenses incurred by the directors and executive officers in investigating or defending any such action, suit, or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and executive officers.

The limitation of liability and indemnification provisions that are expected to be included in our amended and restated certificate of incorporation, amended and restated bylaws and in indemnification agreements that we enter into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions. At present, we are not aware of any pending litigation or proceeding involving any person who is or was one of our directors, officers, employees or other agents or who is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

Prior to the completion of this offering, we expect to obtain insurance policies under which, subject to the limitations of the policies, coverage will be provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including claims relating to public securities matters, and to us with respect to payments that may be made by us to these directors and executive officers pursuant to our indemnification obligations or otherwise as a matter of law.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification by the underwriters of the Registrant and its officers and directors for certain liabilities arising under the Securities Act and otherwise.

Item 15. Recent Sales of Unregistered Securities

From April 1, 2009 to March 31, 2012, we have made the following sales of unregistered securities:

- We have issued to directors, officers, employees, and consultants options to purchase an aggregate of 51,578,669 shares of our common stock with per share exercise prices ranging from \$0.28 to \$0.67 under our 2000 Plan and have issued an aggregate of 1,913,313 shares of our common stock upon exercise of such options; and

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Ÿ On March 15, 2011, we sold 40,939 shares and 307,545 shares of our Series C preferred stock to an accredited investor pursuant to the exercise of two outstanding warrants to purchase shares of our Series C preferred stock at a price per share of \$0.37 and \$0.38, respectively, for an aggregate purchase price of \$127,884.84.

We believe these transactions were exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationship with us, to information about us.

Share and per share amounts contained in the paragraphs above do not reflect the anticipated stock split of our common stock, which we expect to occur prior to the effectiveness of this offering.

There were no underwritten offerings employed in connection with any of the transactions described above.

Item 16. Exhibits

(a) See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

(b) No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Act, may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance

[Table of Contents](#)

upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended (the "Securities Act"), the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Redwood City, State of California on June 8, 2012.

QUALYS, INC.

By: /s/ PHILIPPE F. COURTOT
Name: Philippe F. Courtot
Title: Chairman, President and Chief Executive Officer

SIGNATURES AND POWER OF ATTORNEY

We, the undersigned directors and officers of Qualys, Inc. (the "Company"), hereby severally constitute and appoint Philippe F. Courtot and Donald C. McCauley, and each of them individually, our true and lawful attorneys, with full power to them, and to each of them individually, to sign for us and in our names in the capacities indicated below, the registration statement on Form S-1 filed herewith, and any and all pre-effective and post-effective amendments to said registration statement, and any registration statement filed pursuant to Rule 462(b) under the Securities Act, in connection with the registration under the Securities Act, of equity securities of the Company, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorneys, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities indicated on the date indicated:

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|-------------------------------------------------------|----------------------------------------------------------------------------------|--------------|
| <u>/s/ PHILIPPE F. COURTOT</u> Philippe F. Courtot | Chairman, President and Chief Executive Officer (principal executive officer) | June 8, 2012 |
| <u>/s/ DONALD C. MCCAULEY</u> Donald C. McCauley | Chief Financial Officer (principal financial and accounting officer) | June 8, 2012 |
| <u>/s/ SANDRA E. BERGERON</u> Sandra E. Bergeron | Director | June 8, 2012 |
| <u>/s/ DONALD R. DIXON</u> Donald R. Dixon | Director | June 8, 2012 |
| <u>/s/ JEFFREY P. HANK</u> Jeffrey P. Hank | Director | June 8, 2012 |
| <u>/s/ GENERAL PETER PACE</u> General Peter Pace | Director | June 8, 2012 |
| <u>/s/ YVES B. SISTERON</u> Yves B. Sisteron | Director | June 8, 2012 |

EXHIBIT INDEX

| Exhibit Number | Description |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1* | Form of Underwriting Agreement. |
| 3.1 | Amended and Restated Certificate of Incorporation, as amended, of Qualys, Inc., as currently in effect. |
| 3.2* | Form of Amended and Restated Certificate of Incorporation of Qualys, Inc. to be effective upon completion of this offering. |
| 3.3 | Bylaws of Qualys, Inc., as currently in effect. |
| 3.4* | Form of Amended and Restated Bylaws of Qualys, Inc. to be effective upon completion of this offering. |
| 4.1* | Form of common stock certificate. |
| 4.2 | Amended and Restated Investor Rights Agreement, by and among Qualys, Inc. and the investors party thereto, dated July 12, 2005. |
| 5.1* | Opinion of Wilson Sonsini Goodrich & Rosati, P.C. |
| 10.1 | 2000 Equity Incentive Plan, as amended, and forms of stock option agreements thereunder. |
| 10.2* | 2012 Equity Incentive Plan and forms of stock option agreements thereunder. |
| 10.3 | Offer Letter, between Qualys, Inc. and Philippe F. Courtot, dated December 7, 2000. |
| 10.4 | Offer Letter, between Qualys, Inc. and Amer S. Deeba, dated September 4, 2001. |
| 10.5 | Offer Letter, between Qualys, Inc. and Sumedh S. Thakar, dated January 20, 2003. |
| 10.6 | Offer Letter, between Qualys, Inc. and Donald C. McCauley, dated February 7, 2006. |
| 10.7 | Offer Letter, between Qualys, Inc. and John N. Wilson, dated August 20, 2010. |
| 10.8 | Offer Letter, between Qualys, Inc. and Peter Albert, dated April 14, 2011. |
| 10.9 | Offer Letter, between Qualys, Inc. and Bruce K. Posey, dated May 8, 2012. |
| 10.10* | Form of director and executive officer indemnification agreement. |
| 10.11 | Lease Agreement, between Qualys, Inc. and Westport Office Park, LLC, dated July 11, 2006, as amended August 10, 2007, May 20, 2010 and December 5, 2011. |
| 10.12 | 2011 Corporate Bonus Plan. |
| 10.13** | 2012 Corporate Bonus Plan. |
| 14.1* | Code of Business Conducts and Ethics. |
| 21.1 | List of subsidiaries of Qualys, Inc. |
| 23.1 | Consent of Grant Thornton LLP, independent registered public accounting firm. |
| 23.2 | Consent of Grant Thornton LLP, independent certified public accountants. |
| 23.3* | Consent of Wilson Sonsini Goodrich & Rosati, P.C. (included in Exhibit 5.1). |
| 24.1 | Power of Attorney (see page II-5 to this registration statement on Form S-1). |

* To be filed by amendment.

** Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from the registration statement and submitted separately to the Securities and Exchange Commission.

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE THIRD DAY OF FEBRUARY, A.D. 2011, AT 9:21 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

3152140 8100

110116140

You may verify this certificate online
at corp.delaware.gov/authver.shtml



/s/ Jeffrey W. Bullock

Jeffrey W. Bullock, Secretary of State

AUTHENTICATION: 8539997

DATE: 02-04-11

State of Delaware
Secretary of State
Division of Corporations
Delivered 10:33 PM 02/03/2011
FILED 09:21 PM 02/03/2011
SRV 110116140 - 3152140 FILE

**AMENDMENT NO. 6
TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "**Corporation**"), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000, was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005, and was further amended on May 22, 2006, August 17, 2007, May 15, 2008, July 30, 2009 and December 3, 2009.

2. This Amendment No. 6 to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and further amends the provisions of the Corporation's Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Company is authorized to issue is Four Hundred Seventy Six Million Three Hundred Thousand (476,300,000) shares, Two Hundred Ninety Nine Million Nine Hundred Thousand (299,900,000) shares of which shall be Common Stock (the "Common Stock") and One Hundred Seventy Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the "Preferred Stock"). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Amendment No. 6 to the Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 3rd day of February, 2011.

QUALYS, INC.

By: /s/ Philippe F. Courtot
Philippe F. Courtot
President and Chief Executive Officer

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE THIRD DAY OF DECEMBER, A.D. 2009, AT 9:27 0'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



3152140 8100
091068348

You may verify this certificate online
at corp.delaware.gov/authver.shtml

/s/ Jeffrey W. Bullock

Jeffrey W. Bullock, Secretary of State
AUTHENTICATION: 7677093

DATE: 12-04-09

State of Delaware
Secretary of State
Division of Corporations
Delivered 09:38 PM 12/03/2009
FILED 09:27 PM 12/03/2009
SRV 091068348 - 3152140 FILE

**AMENDMENT NO. 5
TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000, was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005, and was further amended on May 22, 2006, August 17, 2007, May 15, 2008 and July 30, 2009.

2. This Amendment No. 5 to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and further amends the provisions of the Corporation’s Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is Four Hundred Sixty One Million Three Hundred Thousand (461,300,000) shares, Two Hundred Eighty Four Million Nine Hundred Thousand (284,900,000) shares of which shall be Common Stock (the “Common Stock”) and One Hundred Seventy Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Amendment No. 5 to the Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 3rd day of December, 2009.

QUALYS, INC.

By: /s/ Philippe F. Courtot

Philippe F. Courtot
President and Chief Executive Officer

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE THIRTIETH DAY OF JULY, A.D. 2009, AT 6:51 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

3152140 8100

090742698

You may verify this certificate online
at corp.delaware.gov/authver.shtml



/s/ Jeffrey W. Bullock

Jeffrey W. Bullock, Secretary of State

AUTHENTICATION: 7449357

DATE: 07-30-09

**AMENDMENT NO. 4
TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000, was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005, and was further amended on May 22, 2006, August 17, 2007 and May 15, 2008.

2. This Amendment No. 4 to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and further amends the provisions of the Corporation’s Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is Four Hundred Forty Nine Million Three Hundred Thousand (449,300,000) shares, Two Hundred Seventy Two Million Nine Hundred Thousand (272,900,000) shares of which shall be Common Stock (the “Common Stock”) and One Hundred Seventy Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Amendment No. 4 to the Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 29 day of July, 2009.

QUALYS, INC.

By: /s/ Philippe F. Courtot
Philippe F. Courtot
President and Chief Executive Officer

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE FIFTEENTH DAY OF MAY, A.D. 2008, AT 6:06 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

3152140 8100

080556256

You may verify this certificate online
at corp.delaware.gov/authver.shtml



/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6595638

DATE: 05-15-08

**AMENDMENT NO. 3
TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000, was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005, and was further amended on May 22, 2006 and August 17, 2007.

2. This Amendment No. 3 to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and amends the provisions of the Corporation’s Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is Four Hundred Thirty Six Million Eight Hundred Thousand (436,800,000) shares, Two Hundred Sixty Million Four Hundred Thousand (260,400,000) shares of which shall be Common Stock (the “Common Stock”) and One Hundred Seventy-Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Certificate of Amendment to be signed by its President and Chief Executive Officer this 15th day of May, 2008.

QUALYS, INC.

By: /s/ Philippe F. Courtot
Philippe F. Courtot
President and Chief Executive Officer

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF AUGUST, A.D. 2007, AT 9:16 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



3152140 8100
070935889

/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State
AUTHENTICATION: 5937565
DATE : 08-20-07

**AMENDMENT NO. 2
TO
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000, was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005, and was further amended on May 22, 2006.

2. This Amendment No. 2 to the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and amends the provisions of the Corporation’s Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is Four Hundred Twenty Six Million Eight Hundred Thousand (426,800,000) shares, Two Hundred Fifty Million Four Hundred Thousand (250,400,000) shares of which shall be Common Stock (the “Common Stock”) and One Hundred Seventy-Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Certificate of Amendment to be signed by its President and Chief Executive Officer this 17th day of August, 2007.

QUALYS, INC.

By: /s/ Philippe F. Courtot
Philippe F. Courtot
President and Chief Executive Officer

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE TWENTY-SECOND DAY OF MAY, A.D. 2006, AT 6:26 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



3152140 8100

060488579

/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 4765140

DATE : 05-22-06

**CERTIFICATE OF AMENDMENT
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Qualys, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “**Corporation**”), does hereby certify:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000 and was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, November 12, 2004 and again on July 11, 2005.

2. This Certificate of Amendment of the Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Section 242 of the Delaware General Corporation Law and amends the provisions of the Corporation’s Amended and Restated Certificate of Incorporation.

3. Section A of Article IV of the Amended and Restated Certificate of Incorporation is hereby amended to read in its entirety as follows:

This Company is authorized to issue two classes of stock to be designated, respectively, “Common Stock” and “Preferred Stock.” The total number of shares which the Company is authorized to issue is Four Hundred Twenty One Million Eight Hundred Thousand (421,800,000) shares, Two Hundred Forty Five Million Four Hundred Thousand (245,400,000) shares of which shall be Common Stock (the “Common Stock”) and One Hundred Seventy-Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the “Preferred Stock”). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Certificate of Amendment to be signed by its President and Chief Executive Officer this 19th day of May, 2006.

QUALYS, INC.

By: /s/ Philippe F. Courtot
Philippe F. Courtot
President and Chief Executive Officer

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "QUALYS, INC.", FILED IN THIS OFFICE ON THE ELEVENTH DAY OF JULY, A.D. 2005, AT 10:10 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.



/s/ Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 4012794

DATE: 07-12-05

3152140 8100

050573492

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
QUALYS, INC.**

Philippe F. Courtot hereby certifies that:

ONE: The date of filing the original Certificate of Incorporation of this corporation with the Secretary of State of the State of Delaware was December 30, 1999. The original Certificate of Incorporation of the Corporation was restated on February 10, 2000 and was amended and restated on December 7, 2000, on July 25, 2002, November 18, 2003, and again on November 12, 2004.

TWO: He is the duly elected and acting President and Chief Executive Officer of Qualys, Inc., a Delaware corporation.

THREE: The Amended and Restated Certificate of Incorporation of this corporation is hereby amended and restated in its entirety to read as follows:

I.

The name of the corporation is **QUALYS, INC.** (the "Company").

II.

The address of the registered office of the Company in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, Delaware 19808. The name of the Company's registered agent at said address is Corporation Service Company.

III.

The purpose of the Company is to engage in any lawful act or activity for which a corporation may be organized under the Delaware General Corporation Law (the "DGCL").

IV.

A. This Company is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares which the Company is authorized to issue is Four Hundred Twelve Million Eight Hundred Thousand (412,800,000) shares, Two Hundred Thirty-Six Million Four Hundred Thousand (236,400,000) shares of which shall be Common Stock (the "Common Stock") and One Hundred Seventy-Six Million Four Hundred Thousand (176,400,000) shares of which shall be Preferred Stock (the "Preferred Stock"). The Preferred Stock shall have a par value of one-tenth of one cent (\$0.001) per share and the Common Stock shall have a par value of one-tenth of one cent (\$0.001) per share.

B. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares of Common Stock then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of the Company (voting together on an as-if-converted basis).

C. Forty-Eight Million Seventy-Nine Thousand Eight Hundred Sixty (48,079,860) of the authorized shares of Preferred Stock are hereby designated "Series A Preferred Stock."

D. One Hundred Ten Million Three Hundred Fourteen Thousand One Hundred Fourteen (110,314,114) of the authorized shares of Preferred Stock are hereby designated "Series B Preferred Stock."

E. Eighteen Million Six Thousand Twenty-Six (18,006,026) of the authorized shares of Preferred Stock are hereby designated "Series C Preferred Stock" (the Series C Preferred Stock, collectively with the Series A Preferred Stock and the Series B Preferred Stock, shall constitute the "Series Preferred").

F. The rights, preferences, privileges, restrictions and other matters relating to the Series Preferred are as follows:

1. DIVIDEND RIGHTS.

(a) Subject to Section 1(b), the holders of Series Preferred, in preference to the holders of any other capital stock of the Company (such other stock, "Junior Stock"), shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds that are legally available therefor, cash dividends at the rate of eight percent (8%) of the applicable Original Issue Price (as defined below) per annum on each outstanding share of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares after the filing date hereof (collectively, "Recapitalizations")). The "Original Issue Price" of the Series A Preferred Stock shall be sixty cents (\$0.60), of the Series B Preferred Stock shall be twenty-six cents (\$0.26), and of the Series C Preferred Stock shall be \$0.3758, in each case as adjusted for any Recapitalizations. Such dividends shall be payable only when, as and if declared by the Board of Directors and shall be non-cumulative. Payment of any dividends to the holders of the Series Preferred shall be on a pro rata, pari passu basis in proportion to the dividend rates applicable in respect of each series of Series Preferred.

(b) Subject to the last sentence in this Section 1(b), (x) so long as any shares of Series C Preferred Stock shall be outstanding, no dividend, whether in cash or property, shall be paid or declared, nor shall any other distribution be made, on any shares of Series B Preferred Stock, Series A Preferred Stock or on any Junior Stock, nor shall any shares of any Series B Preferred Stock, Series A Preferred Stock or Junior Stock of the Company be purchased, redeemed, or otherwise acquired for value by the Company until all dividends (set forth in Section 1(a) above) on the Series C Preferred Stock shall have been paid or declared and set apart, (y) so long as any shares of Series C Preferred Stock or Series B Preferred Stock shall be outstanding, no dividend, whether in cash or property, shall be paid or declared, nor shall any other

distribution be made, on any shares of Series A Preferred Stock or on any Junior Stock, nor shall any shares of any Series A Preferred Stock or Junior Stock of the Company be purchased, redeemed, or otherwise acquired for value by the Company until all dividends (set forth in Section 1(a) above) on the Series C Preferred Stock and Series B Preferred Stock shall have been paid or declared and set apart, and (z) so long as any shares of Series Preferred shall be outstanding, no dividend, whether in cash or property, shall be paid or declared, nor shall any other distribution be made, on any Junior Stock, nor shall any shares of any Junior Stock of the Company be purchased, redeemed, or otherwise acquired for value by the Company until all dividends (set forth in Section 1(a) above) on the Series Preferred shall have been paid or declared and set apart. Subject to the last sentence in this Section 1(b), in the event dividends are paid on shares of Common Stock, an additional dividend shall be paid with respect to all outstanding shares of Series Preferred in an amount equal per share (on an as-if-converted to Common Stock basis) to the amount paid or set aside for each share of Common Stock. In addition, in any year no dividend shall be paid on Series B Preferred Stock or Series A Preferred Stock unless the aggregate amount of dividends paid per share of Series C Preferred Stock that year (as a percentage of the Original Issue Price per share of Series C Preferred Stock (as adjusted for any Recapitalizations)) at least equals the greater of (i) the aggregate amount of dividends paid per share of Series B Preferred Stock that year (as a percentage of the Original Issue Price per share of Series B Preferred Stock (as adjusted for any Recapitalizations)), and (ii) the aggregate amount of dividends paid per share of Series A Preferred Stock that year (as a percentage of the Original Issue Price per share of Series A Preferred Stock (as adjusted for any Recapitalizations)). The holders of the Series Preferred expressly waive their rights, if any, as described in California Corporations Code Sections 502,503 and 506 as they relate to repurchases of shares upon termination of employment or service as a consultant or director. The provisions of this Section 1 (b) shall not apply to the following (collectively, the "Permitted Repurchases"); (i) a dividend payable in Common Stock, (ii) the acquisition of shares of any Junior Stock in exchange for shares of any other Junior Stock, (iii) acquisitions of Common Stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase at cost (or the lesser of cost or fair market value), (iv) acquisitions of Common Stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries pursuant to rights of first refusal contained in agreements providing for such right that is approved by the unanimous vote of the Company's Board of Directors or (v) any repurchase or redemption of any outstanding securities of the Company that is approved by the unanimous vote of the Company's Board of Directors.

2. VOTING RIGHTS.

(a) General Rights. Except as otherwise provided herein or as required by law, the Series Preferred shall be voted equally with the shares of the Common Stock of the Company and not as a separate class, at any annual or special meeting of stockholders of the Company, and may act by written consent in the same manner as the Common Stock, in either case upon the following basis: each holder of shares of Series Preferred shall be entitled to such number of votes as shall be equal to the whole number of shares of Common Stock into which such holder's aggregate number of shares of Series Preferred are convertible (pursuant to Section 4 hereof) immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent. Fractional votes shall not, however, be permitted and any fractional

voting resulting from the above formula (after aggregating all shares into which shares of Series Preferred held by each holder could be converted shall be rounded to the nearest whole number (with one-half being rounded upward). Each share of Common Stock shall be entitled to one vote.

(b) Separate Vote of Series Preferred. For so long as at least Twenty-Seven Million Five Hundred Fifty Thousand (27,550,000) shares of Series Preferred (as adjusted for any Recapitalizations) remain outstanding, in addition to any other vote or consent required herein or by law, the vote or written consent of the holders of at least a majority of the outstanding Series Preferred shall be necessary for effecting or validating the following actions:

(i) Any amendment, alteration, or repeal of any provision of the Certificate of Incorporation of the Company (including any filing of a Certificate of Determination) that changes the voting powers, preferences, or other special rights or privileges, or restrictions of the Series Preferred;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Company ranking senior to the Series A Preferred Stock, Series B Preferred Stock, or Series C Preferred Stock in right of redemption, liquidation preference, voting or dividends or any increase in the authorized or designated number of any such new class or series;

(iii) Any redemption, repurchase, payment of dividends or other distributions with respect to Junior Stock (except in connection with any Permitted Repurchase); or

(iv) Any agreement by the Company or its stockholders regarding an Asset Transfer or Acquisition (each as defined in Section 3(e)).

(c) Election of Board of Directors. (i) For so long as at least Twenty Million (20,000,000) shares of Series B Preferred Stock remain outstanding (as adjusted for any Recapitalizations) the holders of Series B Preferred Stock, voting as a separate series, shall be entitled to elect two (2) members of the Company's Board of Directors at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors; (ii) for so long as at least Twenty-Seven Million Five Hundred Fifty Thousand (27,550,000) shares of Series Preferred remain outstanding (as adjusted for any Recapitalizations), the holders of Series Preferred, voting together as a separate class, shall be entitled to elect one (1) member of the Company's Board of Directors at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors; (iii) the holders of Common Stock, voting as a separate class, shall be entitled to elect two (2) members of the Board of Directors at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any vacancy caused by the resignation, death or removal of such directors, and (iv) the holders of Common Stock and Series Preferred, voting together as if a single class, shall be entitled to elect the remaining members of the Board of Directors, if any, at each meeting or pursuant to each consent of the Company's stockholders for the election of directors, and to remove from office such directors and to fill any

vacancy caused by the resignation, death or removal of such directors. No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the Company is subject to Section 2115 of the California General Corporation Law ("CGCL"). During such time or times that the Company is subject to Section 2115(b) of the CGCL, every stockholder entitled to vote at an election for directors may cumulate such stockholders votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder desires. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (i) the names of such candidate or candidates have been placed in nomination prior to the voting and (ii) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

(d) Removal.

(i) During such time or times that the Company is subject to Section 2115(b) of the CGCL, the Board of Directors or any individual director may be removed from office at any time without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such director's removal; *provided, however*, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

(ii) At any time or times that the Company is not subject to Section 2115(b) of the CGCL and subject to any limitations imposed by law, Section (d)(i) above shall not apply and the Board of Directors or any director may be removed from office at any time with or without cause by the affirmative vote of the holders of a majority of the specified class or classes of stock or series thereof entitled to elect such director.

3. LIQUIDATION RIGHTS.

(a) Initial Distribution – Series C Preferred. Upon any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of the Series B Preferred Stock, Series A Preferred Stock and/or any Junior Stock, the holders of Series C Preferred Stock shall be entitled to be paid out of the assets of the Company legally available for distribution (or the consideration received in such transaction) an amount per share of Series C Preferred Stock equal to the Original Issue Price thereof plus all declared and unpaid dividends on such share of Series C Preferred Stock (as adjusted for any Recapitalizations) for each share of Series C Preferred Stock held by them. If, upon any such liquidation, distribution, or winding up, the assets of the Company shall be insufficient to make payment in full to all holders of Series C Preferred Stock of the liquidation

preference set forth in this Section 3(a), then such assets shall be distributed among the holders of Series C Preferred Stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

(b) Secondary Distribution Series B Preferred. Only after the payment of the full liquidation preference of the Series C Preferred Stock as set forth in Section 3(a) above, and before any distribution or payment shall be made to the holders of the Series A Preferred Stock and/or any Junior Stock, the holders of Series B Preferred Stock shall be entitled to be paid out of the assets of the Company legally available for distribution (or the consideration received in such transaction) an amount per share of Series B Preferred Stock equal to the Original Issue Price thereof plus all declared and unpaid dividends on such share of Series B Preferred Stock (as adjusted for any Recapitalizations) for each share of Series B Preferred Stock held by them. If, upon any such liquidation, distribution, or winding up, the assets of the Company shall be insufficient to make payment in full to all holders of Series B Preferred Stock of the liquidation preference set forth in this Section 3(b), then such assets shall be distributed among the holders of Series B Preferred Stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

(c) Tertiary Distribution – Series A Preferred. Only after the payment of the full liquidation preference of (i) the Series C Preferred Stock as set forth in Section 3(a) above and (ii) the Series B Preferred Stock as set forth in Section 3(b) above, and before any distribution or payment is made to the holders of any Junior Stock, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Company legally available for distribution (or the consideration received in such transaction) an amount per share of Series A Preferred Stock equal to the Original Issue Price thereof plus all declared and unpaid dividends on such share of Series A Preferred Stock (as adjusted for any Recapitalizations) for each share of Series A Preferred Stock held by them. If, upon any such liquidation, dissolution or winding up, the assets of the Company shall be insufficient to make payment in full to all holders of Series A Preferred Stock of the liquidation preference set forth in this Section 3(c), then such assets shall be distributed to the holders of the Series A Preferred Stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

(d) Remaining Assets Distribution – Common Stock. Only after the payment of the full liquidation preferences of the Series Preferred as set forth in Sections 3(a), 3(b) and 3(c) above, the remaining assets of the Company legally available for distribution, if any, shall be distributed ratably to the holders of the Common Stock.

(c) The following events shall be considered a liquidation, dissolution or winding up of the Company under this Section:

(i) the acquisition of the Company by another person, entity or group of people or entities by means of any transaction or series of related transactions to which the Company is party (including, without limitation, any stock acquisition, reorganization, merger or consolidation) other than a transaction or series of transactions in which the holders of the voting securities of the Company outstanding immediately prior to such transaction continue to retain (either by such voting securities remaining outstanding or by such voting securities being converted

into voting securities of the surviving entity), as a result of shares in the Company held by such holders prior to such transaction, more than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such transaction or series of transactions (an "Acquisition"); *provided, however*, that upon the affirmative vote of the holders of at least 55% of the then outstanding Series Preferred, voting together as a separate class, this Section 3(e)(i) may be waived with respect to any Acquisition;

(ii) a sale, lease or other disposition of all or substantially all of the assets of the Company (an "Asset Transfer"); *provided, however*, that upon the affirmative vote of the holders of at least 55% of the then outstanding Series Preferred, voting together as a separate class, this Section 3(e)(ii) may be waived with respect to any Asset Transfer, or

(iii) any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

(iv) In any of such events, if the consideration received by this Company is other than cash, its value will be deemed its fair market value as determined in good faith by the Board of Directors on the date such determination is made. Any securities shall be valued as follows:

(A) Securities not subject to investment letter or other similar restrictions on free marketability covered by (B) below:

(1) If traded on a securities exchange or through the Nasdaq National Market, the value shall be deemed to be the average of the closing prices of the securities on such quotation system over the thirty (30) day period ending three (3) days prior to the closing;

(2) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty (30) day period ending three (3) days prior to the closing; and

(3) If there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors.

(B) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in (A) (1), (2) or (3) to reflect the approximate fair market value thereof as determined in good faith by the Board of Directors.

4. CONVERSION RIGHTS. The holders of the Series Preferred shall have the following rights with respect to the conversion of the Series Preferred into shares of Common Stock (the "Conversion Rights"):

(a) **Optional Conversion.** Subject to and in compliance with the provisions of this Section 4, any shares of Series Preferred may, at the option of the holder, be

converted at any time into fully-paid and nonassessable shares of Common Stock. The number of shares of Common Stock to which a holder of Series Preferred shall be entitled upon conversion shall be the product obtained by multiplying the "Series Preferred Conversion Rate" then in effect for the Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock, as applicable (determined as provided in Section 4(b)) by the number of shares of the applicable series of Series Preferred being converted.

(b) Series Preferred Conversion Rate. The conversion rate in effect at any time for conversion of the Series A Preferred Stock (the "Series A Preferred Conversion Rate"), the Series B Preferred Stock (the "Series B Preferred Conversion Rate") and the Series C Preferred Stock (the "Series C Preferred Conversion Rate") (the Series A Preferred Conversion Rate, the Series B Preferred Conversion Rate and the Series C Preferred Conversion Rate, each a "Series Preferred Conversion Rate") shall be the quotient obtained by dividing the Original Issue Price of such series by the applicable "Series Preferred Conversion Price," calculated as provided in Section 4(c).

(c) Series Preferred Conversion Price. As of the Original Issue Date (as defined below), the conversion price for the Series A Preferred Stock (the "Series A Preferred Conversion Price"), the conversion price for the Series B Preferred Stock shall initially be the Original Issue Price of such series (the "Series B Preferred Conversion Price") and the conversion price for the Series C Preferred Stock shall initially be the Original Issue Price of such series (the "Series C Preferred Conversion Price") (the Series A Preferred Conversion Price; the Series B Preferred Conversion Price and the Series C Preferred Conversion Price, each a "Series Preferred Conversion Price"). Each such Series Preferred Conversion Price shall be adjusted from time to time in accordance with this Section 4. All references to the Series Preferred Conversion Price herein shall mean the applicable Series Preferred Conversion Price as so adjusted.

(d) Mechanics of Conversion. Each holder of Series Preferred who desires to convert the same into shares of Common Stock pursuant to this Section 4 shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Company or any transfer agent for the Series Preferred, and shall give written notice to the Company at such office that such holder elects to convert the same. Such notice shall state the number of shares of Series Preferred being converted. Thereupon, the Company shall promptly issue and deliver at such office to such holder a certificate or certificates for the number of shares of Common Stock to which such holder is entitled and shall promptly pay (i) in cash or, to the extent sufficient funds are not then legally available therefor, in Common Stock (at the Common Stock's fair market value determined by the Board of Directors as of the date of such conversion), any declared and unpaid dividends on the shares of Series Preferred being converted and (ii) in cash (at the Common Stock's fair market value determined by the Board of Directors as of the date of conversion) the value of any fractional share of Common Stock otherwise issuable to any holder of Series Preferred. Such conversion shall be deemed to have been made at the close of business on the date of such surrender of the certificates representing the shares of Series Preferred to be converted, and the person entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock on such date.

(e) Adjustment for Stock Splits and Combinations. If at any time or from time to time after the date that the first share of Series C Preferred Stock is issued (the "Original Issue Date") the Company effects a subdivision of the outstanding Common Stock without a corresponding subdivision of any series of Series Preferred, the applicable Series Preferred Conversion Price in effect immediately before that subdivision shall be proportionately decreased. Conversely, if at any time or from time to time after the Original Issue Date the Company combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of any series of Series Preferred, the applicable Series Preferred Conversion Price in effect immediately before the combination shall be proportionately increased. Any adjustment under this Section 4(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(f) Adjustment for Common Stock Dividends and Distributions. If the Company at any time or from time to time after the Original Issue Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event each Series Preferred Conversion Price that is then in effect shall be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the applicable Series Preferred Conversion Price then in effect by a fraction (i) the numerator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and (ii) the denominator of which is the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; *provided, however*, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, each Series Preferred Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the applicable Series Preferred Conversion Price shall be adjusted pursuant to this Section 4(f) to reflect the actual payment of such dividend or distribution. In the event the Company shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets (excluding cash dividends) or options or rights not referred to in the first sentence of this subsection 4(f), then, in each such case for the purpose of this subsection 4(f), the holders of the Series Preferred shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Company into which their shares of Series Preferred are convertible as of the record date fixed for the determination of the holders of Common Stock of the Company entitled to receive such distribution.

(g) Adjustment for Reclassification, Exchange and Substitution. If at any time or from time to time after the Original Issue Date, the Common Stock issuable upon the conversion of the Series Preferred is changed into the same or a different number of shares of any class or classes of stock, whether, by recapitalization, reclassification or otherwise (other than an Acquisition or Asset Transfer as defined in Section 3(e) or a subdivision or combination of shares or stock dividend or a reorganization, merger, consolidation or sale of assets provided for elsewhere in this Section 4), in any such event each holder of Series Preferred shall have the right thereafter to convert such stock into the kind and amount of stock and other securities and property receivable upon such recapitalization, reclassification or other change by holders of the maximum number of

shares of Common Stock into which such shares of each Series Preferred could have been converted immediately prior to such recapitalization, reclassification or change, all subject to further adjustment as provided herein or with respect to such other securities or property by the terms thereof.

(h) Reorganizations, Mergers or Consolidations. If at any time or from time to time after the Original Issue Date, there is a capital reorganization of the Common Stock or the merger or consolidation of the Company with or into another corporation or another entity or person (other than an Acquisition or Asset Transfer as defined in Section 3(e) or a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section 4), as a part of such capital reorganization, provision shall be made so that the holders of the Series Preferred shall thereafter be entitled to receive upon conversion of the Series Preferred the number of shares of stock or other securities or property of the Company to which a holder of the number of shares of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, subject to adjustment in respect of such stock or securities by the terms thereof. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 4 with respect to the rights of the holders of Series Preferred after the capital reorganization to the end that the provisions of this Section 4 (including adjustment of the Series Preferred Conversion Price then in effect and the number of shares issuable upon conversion of each Series Preferred) shall be applicable after that event and be as nearly equivalent as practicable.

(i) Sale of Shares Below Series C Preferred Stock Conversion Price and Series B Preferred Stock Conversion Price.

(i) (A) If at any time or from time to time, after the Original Issue Date, the Company issues or sells, or is deemed by the express provisions of this subsection (i)(A) to have issued or sold, Additional Shares of Common Stock (as defined in subsection (i)(iv) below), other than in a transaction for which an appropriate adjustment is made pursuant to Sections 4(e), (f), (g) or (h) above, for an Effective Price (as defined in subsection (i)(iv) below) less than the then effective Series C Preferred Conversion Price, then and in each such case the then existing Series C Preferred Conversion Price shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Series C Preferred Conversion Price by a fraction (x) the numerator of which shall be (1) the number of shares of Common Stock deemed outstanding (as defined below) immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received (as defined in subsection (i)(ii)) by the Company for the total number of Additional Shares of Common Stock so issued would purchase at such Series C Preferred Conversion Price and (y) the denominator of which shall be the number of shares of Common Stock deemed outstanding (as defined below) immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued. For the purposes of the preceding sentence, the number of shares of Common Stock deemed to be outstanding as of a given date shall be the sum of (aa) the number of shares of Common Stock actually outstanding, (bb) the number of shares of Common Stock into which the then outstanding shares of Series Preferred could be converted if fully converted on the day immediately preceding the given date, and (cc) the number of shares of Common Stock which could be obtained through the exercise or conversion of all other rights, options and convertible securities outstanding on the day immediately preceding the given date (collectively, the “Deemed Outstanding Common Stock”).

(B) If at any time or from time to time, after the Original Issue Date, the Company issues or sells, or is deemed by the express provisions of this subsection (i)(B) to have issued or sold, Additional Shares of Common Stock (as defined in subsection (i)(iv) below), other than in a transaction for which an appropriate adjustment is made pursuant to Sections 4(e), (f), (g) or (h) above, for an Effective Price (as defined in subsection (i)(iv) below) less than the then effective Series B Preferred Conversion Price, then and in each such case the then existing Series B Preferred Conversion Price shall be reduced, as of the opening of business on the date of such issue or sale, to a price determined by multiplying the Series B Preferred Conversion Price by a fraction (x) the numerator of which shall be (1) the number of shares of Deemed Outstanding Common Stock immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received (as defined in subsection (i)(ii)) by the Company for the total number of Additional Shares of Common Stock so issued would purchase at such Series B Preferred Conversion Price and (y) the denominator of which shall be the number of shares of Deemed Outstanding Common Stock immediately prior to such issue or sale plus the total number of Additional Shares of Common Stock so issued.

(ii) For the purpose of making any adjustment required under this Section 4(i), the consideration received by the Company for any issue or sale of securities shall be defined as (A) to the extent it consists of cash, be computed at the net amount of cash received by the Company after deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Company in connection with such issue or sale but without deduction of any expenses payable by the Company, (B) to the extent it consists of property other than cash, be computed at the fair value of that property as determined in good faith by the Board of Directors, and (C) if Additional Shares of Common Stock, Convertible Securities (as defined in subsection (i)(iii)) or rights or options to purchase either Additional Shares of Common Stock or Convertible Securities are issued or sold together with other stock or securities or other assets of the Company for a consideration which covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors to be allocable to such Additional Shares of Common Stock, Convertible Securities or rights or options.

(iii) For the purpose of the adjustment required under this Section 4(i), if the Company issues or sells (A) stock or other securities convertible into, Additional Shares of Common Stock (such convertible stock or securities being herein referred to as "Convertible Securities") or (B) rights or options for the purchase of Additional Shares of Common Stock or Convertible Securities and if the Effective Price of such Additional Shares of Common Stock is less than the Series C Conversion Price or the Series B Conversion Price, as applicable, in each case the Company shall be deemed to have issued at the time of the issuance of such rights or options or Convertible Securities the maximum number of Additional Shares of Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Company for the issuance of such rights or options or Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Company upon the exercise of such rights or options, plus, in the case of Convertible Securities, the minimum amounts of consideration, if any, payable to the Company (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; *provided* that if in the case of Convertible Securities the minimum amounts of such consideration cannot be ascertained, but are

a function of antidilution or similar protective clauses, the Company shall be deemed to have received the minimum amounts of consideration without reference to such clauses; *provided further* that if the minimum amount of consideration payable to the Company upon the exercise or conversion of rights, options or Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of antidilution adjustments, the Effective Price shall be recalculated using the figure to which such minimum amount of consideration is reduced; *provided further* that if the minimum amount of consideration payable to the Company upon the exercise or conversion of such rights, options or Convertible Securities is subsequently increased, the Effective Price shall be again recalculated using the increased minimum amount of consideration payable to the Company upon the exercise or conversion of such rights, options or Convertible Securities. No further adjustment of the Series C Conversion Price or the Series B Conversion Price, as applicable, as adjusted upon the issuance of such rights, options or Convertible Securities, shall be made as a result of the actual issuance of Additional Shares of Common Stock on the exercise of any such rights or options or the conversion of any such Convertible Securities. If any such rights or options or the conversion privilege represented by any such Convertible Securities shall expire without having been exercised, the applicable Series Preferred Conversion Price as adjusted upon the issuance of such rights, options or Convertible Securities shall be readjusted to the Series Preferred Conversion Price which would have been in effect had an adjustment been made on the basis that the only Additional Shares of Common Stock so issued were the Additional Shares of Common Stock, if any, actually issued or sold on the exercise of such rights or options or rights of conversion of such Convertible Securities, and such Additional Shares of Common Stock, if any, were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of all such rights or options, whether or not exercised, plus the consideration received for issuing or selling the Convertible Securities actually converted, plus the consideration, if any, actually received by the Company (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) on the conversion of such Convertible Securities, *provided* that such readjustment shall not apply to prior conversions of Series Preferred.

(iv) For the purpose of making any adjustment to the Series C Conversion Price or the Series B Conversion Price, as applicable, under this Section 4(i), "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Company or deemed to be issued pursuant to this Section 4(i), other than: (A) shares of Common Stock issued upon conversion of the Series Preferred; (B) shares of Common Stock and/or options, warrants or other Common Stock purchase rights, and the Common Stock issued pursuant to such options, warrants or other rights (as adjusted for any Recapitalizations) after the Original Issue Date to employees, officers or directors of, or consultants or advisors to the Company or any subsidiary pursuant to stock purchase of stock option plans or other arrangements that have been approved by the Board; (C) shares of Common Stock issued pursuant to the exercise of options, warrants or convertible securities outstanding as of the Original Issue Date, (D) shares of Common Stock and/or options, warrants or other Common Stock purchase rights, and the Common Stock issued pursuant to such options, warrants or other rights issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination approved by the Board of Directors (including at least one of the members of the Board of Directors appointed by the holders of the Series B Preferred Stock as set forth in Section 1.2(a) of the Amended and Restated Voting Agreement dated as of November 12, 2004, by and among the Company and certain parties listed on

Exhibit A and *Exhibit B* thereto, as may be amended from time to time (the "Voting Agreement"), (E) shares of Common Stock or Convertible Securities issued pursuant to any equipment leasing arrangement, or debt financing from a bank or other person or entity, in each case, approved by the Board of Directors (including at least one of the members of the Board of Directors appointed by the Series B Preferred Stock as set forth in Section 1.2(a) of the Voting Agreement) and any equity securities issued in connection with strategic transactions involving the Company and other entities, including (i) joint ventures, manufacturing, marketing or distribution arrangements or (ii) technology transfer or development arrangements, provided that the issuance of shares therein has been approved by the Board of Directors (including at least one of the members of the Board of Directors appointed by the Series B Preferred Stock as set forth in Section 1.2(a) of the Voting Agreement). References to Common Stock in the subsections of this clause (iv) above shall mean all shares of Common Stock issued by the Company or deemed to be issued pursuant to this Section 4(i). The "Effective Price" of Additional Shares of Common Stock shall mean the quotient determined by dividing the total number of Additional Shares of Common Stock issued or sold, or deemed to have been issued or sold by the Company under this Section 4(i), into the aggregate consideration received, or deemed to have been received by the Company for such issue under this Section 4(i), for such Additional Shares of Common Stock.

(j) Certificate of Adjustment. In each case of an adjustment or readjustment of any Series Preferred Conversion Price for the number of shares of Common Stock or other securities issuable upon conversion of any Series Preferred, if such Series Preferred is then convertible pursuant to this Section 4, the Company, at its expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of such series of Series Preferred at the holder's address as shown in the Company's books. The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Company for any Additional Shares of Common Stock issued or sold or deemed to have been issued or sold, (ii) the applicable Series Preferred Conversion Price at the time in effect, (iii) the number of Additional Shares of Common Stock and (iv) the type and amount, if any, of other property which at the time would be received upon conversion of such Series Preferred.

(k) Notices of Record Date. Upon (i) any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, or (ii) any Acquisition (as defined in Section 3(e)) or other capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company, any merger or consolidation of the Company with or into any other corporation, or any Asset Transfer (as defined in Section 3(e)), or any voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall mail to each holder of Series Preferred at least twenty (20) days prior to the record date specified therein (or such shorter period approved by a majority of the outstanding Series Preferred) a notice specifying (A) the date on which any such record is to be taken for the purpose of such dividend or distribution and a description of such dividend or distribution, (B) the date on which any such Acquisition, reorganization, reclassification, transfer, consolidation, merger, Asset Transfer, dissolution, liquidation or winding up is expected to become effective, and (C) the date, if any, that is to be fixed

as to when the holders of record of Common Stock (or other securities) shall be entitled to exchange their shares of Common Stock (or other securities) for securities or other property deliverable upon such Acquisition, reorganization, reclassification, transfer, consolidation, merger, Asset Transfer, dissolution, liquidation or winding up.

(l) Automatic Conversion.

(i) Each share of Series Preferred shall automatically be converted into shares of Common Stock, based on the then-effective Series Preferred Conversion Price, (A) at any time upon the affirmative election of the holders of at least a majority of the outstanding shares of the Series C Preferred Stock, or (B) immediately upon the closing of a firmly underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, covering the offer and sale of Common Stock for the account of the Company in which (i) the underwriter has been approved by the Board, (ii) the per share price is at least \$1.20 (as adjusted for stock splits, dividends, recapitalizations and the like), and (iii) the gross cash proceeds to the Company (before underwriting discounts, commissions and fees) are at least \$20,000,000. Upon such automatic conversion, any declared and unpaid dividends shall be paid in accordance with the provisions of Section 4(d).

(ii) Upon the occurrence of either of the events specified in Section 4(l)(i) above, the outstanding shares of Series Preferred shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Company or its transfer agent; *provided, however*, that the Company shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificates evidencing such shares of Series Preferred are either delivered to the Company or its transfer agent as provided below, or the holder notifies the Company or its transfer agent that such certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificates. Upon the occurrence of such automatic conversion of the Series Preferred, the holders of Series Preferred shall surrender the certificates representing such shares at the office of the Company or any transfer agent for the Series Preferred. Thereupon, there shall be issued and delivered to such holder promptly at such office and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which the shares of Series Preferred surrendered were convertible on the date on which such automatic conversion occurred, and any declared and unpaid dividends shall be paid in accordance with the provisions of Section 4(d).

(m) Fractional Shares. No fractional shares of Common Stock shall be issued upon conversion of Series Preferred. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series Preferred by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of any fractional share, the Company shall, in lieu of issuing any fractional share, pay cash equal to the product of such fraction multiplied by the Common Stock's fair market value (as determined by the Board of Directors) on the date of conversion.

(n) Reservation of Stock Issuable Upon Conversion. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of the Series Preferred, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series Preferred. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series Preferred, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(o) Notices. Any notice required by the provisions of this Section 4 to be given to the holders of shares of Series Preferred shall be deemed given upon receipt or, if earlier, (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid; (b) upon delivery, if delivered by hand; (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid; or (d) one (1) business day after the business day of facsimile or electronic mail transmission (in each case with confirmation of receipt); provided, that, if delivered by facsimile or e-mail, such transmission shall be followed with a copy by first class mail, postage prepaid, and shall be addressed to each holder of record at such holder's address appearing on the books of the Company.

(p) Payment of Taxes. The Company will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock upon conversion of shares of Series Preferred, excluding any tax or other charge imposed in connection with any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of Series Preferred so converted were registered.

(q) No Dilution or Impairment. Without the consent of the holders of then outstanding Series Preferred as required under Section 2(b), the Company shall not amend its Amended and Restated Certificate of Incorporation or participate in any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or take any other voluntary action, for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series Preferred against dilution or other impairment.

V.

A. The liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent under applicable law.

B. If and to the extent that the Company may from time to time be or become subject to certain provisions of the CGCL pursuant to Section 2115, then, as authorized by Section 317(g) of the CGCL, for the duration of any such period, the Company is authorized to provide indemnification of agents (as defined in Section 317 of the CGCL) for breach of duty to the

Company and its stockholders through bylaw provisions or through agreements with the agents, or through stockholder resolutions, or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the CGCL, subject, at any time or times that the Company is subject to Section 2115(b) of the CGCL, to the limits on such excess indemnification created by applicable Delaware law (statutory or nonstatutory) with respect to actions for breach of duty to the Company, its stockholders or others.

C. Any repeal or modification of this Article V shall only be prospective and shall not affect the rights under this Article V in effect at the time of the alleged occurrence of any act or omission to act giving rise to liability or indemnification.

VI.

For the management of the business and for the conduct of the affairs of the Company, and in further definition, limitation and regulation of the powers of the Company, of its directors and of its stockholders or any class thereof, as the case may be, it is further *provided* that:

A. The management of the business and the conduct of the affairs of the Company shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by the Board of Directors in the manner provided in the Bylaws, subject to any restrictions which may be set forth in this Amended and Restated Certificate of Incorporation.

B. The Board of Directors is expressly empowered to adopt, amend or repeal the Bylaws of the Company. The stockholders shall also have the power to adopt, amend or repeal the Bylaws of the Company; provided, however, that in addition to any other vote of the holders of any class or series of stock of the Company required by law or by this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the Company entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the Company.

C. The directors of the Company need not be elected by written ballot unless the Bylaws so provide.

FOUR: This Amended and Restated Certificate of Incorporation has been duly approved by the Board of Directors of the Company.

FIVE: This Amended and Restated Certificate of Incorporation was approved by the holders of the requisite number of shares of the Company in accordance with Section 228 of the General Corporation Law. This Amended and Restated Certificate of Incorporation has been duly adopted in accordance with the provisions of Sections 242 and 245 of the DGCL by the stockholders of the Company. The total number of outstanding shares entitled to vote or act by written consent was 30,081,626 shares of Common Stock, 47,665,722 shares of Series A Preferred Stock, 110,314,114 shares of Series B Preferred Stock and 17,296,433 shares of Series C Preferred Stock. The holders of a majority of the outstanding shares of Common Stock and a majority of the

outstanding Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, voting together as a single class, approved this Amended and Restated Certificate of Incorporation by written consent in accordance with Section 228 of the DGCL and prompt written notice of such was given by the Company in accordance with said Section 228 to those stockholders who did not approve this Amended and Restated Certificate of Incorporation by written consent.

IN WITNESS WHEREOF, QUALYS, INC. has caused this Amended and Restated Certificate of Incorporation to be signed by its President and Chief Executive Officer this 11th day of July, 2005.

QUALYS, INC.

By: /s/ Philippe F. Courtot

Philippe F. Courtot

President and Chief Executive Officer

BYLAWS
OF
QUALYS, INC.
(A DELAWARE CORPORATION)

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BYLAWS
OF
QUALYS, INC.
(A DELAWARE CORPORATION)

ARTICLE I
OFFICES

Section 1. Registered Office. The registered office of the corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle. (Del. Code Ann., tit. 8, § 131)

Section 2. Other Offices. The corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors, and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the corporation may require. (Del. Code Ann., tit. 8, § 122(8))

ARTICLE II
CORPORATE SEAL

Section 3. Corporate Seal. The corporate seal shall consist of a die bearing the name of the corporation and the inscription, "Corporate Seal-Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. (Del. Code Ann., tit. 8, § 122(3))

ARTICLE III
STOCKHOLDERS' MEETINGS

Section 4. Place of Meetings. Meetings of the stockholders of the corporation shall be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the principal office of the corporation required to be maintained pursuant to Section 2 hereof. (Del. Code Ann., tit. 8, § 211(a))

Section 5. Annual Meeting.

(a) The annual meeting of the stockholders of the corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors. Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the corporation's notice of meeting of stockholders; (ii) by or at the direction of the Board of Directors; or (iii) by any stockholder of the corporation who was a stockholder of record at the time of giving of notice provided for in the following paragraph, who is entitled to vote at the meeting and who complied with the notice procedures set forth in Section 5. (Del. Code Ann., tit. 8, § 211(b)).

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of Section 5(a) of these Bylaws, (i) the stockholder must have given timely notice thereof in writing to the Secretary of the corporation, (ii) such other business must be a proper matter for stockholder action under the General Corporation Law of Delaware, (iii) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the corporation with a Solicitation Notice (as defined in this Section 5(b)), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the corporation's voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice, and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section 5. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting, provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposed to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as

amended (the "1934 Act") and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the corporation which are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(c) Notwithstanding anything in the second sentence of Section 5(b) of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 5 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Section 5 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 5. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposal or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 5, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the corporation proxy statement pursuant to Rule 14a-8 under the 1934 Act.

(f) For purposes of this Section 5, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

Section 6. Special Meetings.

(a) Special meetings of the stockholders of the corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, or (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption) or (iv) by the holders of shares entitled to cast not less than twenty percent (20%) of the votes at the meeting, and shall be held at such place, on such date, and at such time as the Board of Directors shall fix. At any time or times that the corporation is subject to Section 2115(b) of the California General Corporation Law (“CGCL”), stockholders holding five percent (5%) or more of the outstanding shares shall have the right to call a special meeting of stockholders as set forth in Section 18(c) herein.

(b) If a special meeting is properly called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 7 of these Bylaws. If the notice is not given within sixty (60) days after the receipt of the request, the person or persons properly requesting the meeting may set the time and place of the meeting and give the notice. Nothing contained in this paragraph (b) shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

Section 7. Notice of Meetings. Except as otherwise provided by law or the Certificate of Incorporation, written notice of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, date and hour and purpose or purposes of the meeting. Notice of the time, place and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given. (Del. Code Ann., tit. 8, §§ 222, 229)

Section 8. Quorum. At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative vote of a majority of shares present in person or represented by proxy duly authorized at the meeting and entitled to vote on the subject matter shall be the act of the stockholders. Except as otherwise provided by statute, the Certificate of Incorporation or these Bylaws, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy duly authorized at the meeting and entitled to vote on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person or represented by proxy duly authorized, shall constitute a quorum entitled to take action with respect to that vote on that matter. Except where otherwise provided by statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of the outstanding shares of such class or classes or series present in person or represented by proxy duly authorized at the meeting shall be the act of such class or classes or series. (Del. Code Ann., tit. 8, § 216)

Section 9. Adjournment and Notice of Adjourned Meetings. Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares casting votes. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. (Del. Code Ann., tit. 8, § 222(e))

Section 10. Voting Rights. For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 12 of these Bylaws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a proxy granted in accordance with Delaware law. An agent so appointed need not be a stockholder. No proxy shall be voted after three (3) years from its date of creation unless the proxy provides for a longer period. (Del. Code Ann., tit. 8, §§ 211(e), 212(b))

Section 11. Joint Owners of Stock. If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1) votes, the act of the majority so voting binds all; (c) if more than one (1) votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the Delaware General Corporation Law, Section 217(b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of subsection (c) shall be a majority or even-split in interest. (Del. Code Ann., tit. 8, § 217(b))

Section 12. List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list shall be produced and kept at the time and place of meeting during the whole time thereof and may be inspected by any stockholder who is present. (Del. Code Ann., tit. 8, § 219(a))

Section 13. Action Without Meeting.

(a) Unless otherwise provided in the Certificate of Incorporation, any action required by statute to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(b) Every written consent shall bear the date of signature of each stockholder who signs the consent, and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered to the corporation in the manner herein required, written consents signed by a sufficient number of stockholders to take action are delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. (Del. Code Ann., tit. 8, § 228)

(c) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take action were delivered to the corporation as provided in Section 228(c) of the Delaware General Corporation Law. If the action which is consented to is such as would have required the filing of a certificate under any section of the Delaware General Corporation Law if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the Delaware General Corporation Law.

Section 14. Organization.

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE IV

DIRECTORS

Section 15. Number and Term of Office.

The authorized number of directors of the corporation shall be fixed by the Board of Directors from time to time.

Directors need not be stockholders unless so required by the Certificate of Incorporation. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient (Del. Code Ann., tit. 8, §§ 141(b), 211(b), (c))

Section 16. Powers. The powers of the corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation. (Del. Code Ann., tit. 8, § 141(a))

Section 17. Term of Directors.

(a) Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, directors shall be elected at each annual meeting of stockholders for a term of one year. Each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) No person entitled to vote at an election for directors may cumulate votes to which such person is entitled, unless, at the time of such election, the corporation is subject to Section 2115(b) of the CGCL. During such time or times that the corporation is subject to Section 2115(b) of the CGCL, every stockholder entitled to vote at an election for directors may cumulate such stockholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which such stockholder's shares are otherwise entitled, or distribute the stockholder's votes on the same principle among as many candidates as such stockholder thinks fit. No stockholder, however, shall be entitled to so cumulate such stockholder's votes unless (a) the names of such candidate or candidates have been placed in nomination prior to the voting and (b) the stockholder has given notice at the meeting, prior to the voting, of such stockholder's intention to cumulate such stockholder's votes. If any stockholder has given proper notice to cumulate votes, all stockholders may cumulate their votes for any candidates who have been properly placed in nomination. Under cumulative voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, are elected.

Section 18. Vacancies.

(a) Unless otherwise provided in the Certificate of Incorporation, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director. (Del. Code Ann., tit. 8, § 223(a), (b)).

(b) If at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted

immediately prior to any such increase), the Delaware Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in offices as aforesaid, which election shall be governed by Section 211 of the Delaware General Corporation Law (Del. Code Ann. tit. 8, §223(c)).

(c) At any time or times that the corporation is subject to §2115(b) of the CGCL; if, after the filling of any vacancy, the directors then in office who have been elected by stockholders shall constitute less than a majority of the directors then in office, then

(i) any holder or holders of an aggregate of five percent (5%) or more of the total number of shares at the time outstanding having the right to vote for those directors may call a special meeting of stockholders; or

(ii) the Superior Court of the proper county shall, upon application of such stockholder or stockholders, summarily order a special meeting of the stockholders, to be held to elect the entire board, all in accordance with Section 305(c) of the CGCL, the term of office of any director shall terminate upon that election of a successor. (CGCL §305(c)).

Section 19. Resignation. Any director may resign at any time by delivering his written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified. (Del. Code Ann., tit. 8, §§ 141(b), 223(d))

Section 20. Removal.

(a) Subject to any limitations imposed by applicable law (and assuming the corporation is not subject to Section 2115 of the CGCL), the Board of Directors or any director may be removed from office at any time (i) with cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of voting stock of the corporation entitled to vote at an election of directors or (ii) without cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of voting stock of the corporation, entitled to vote at an election of directors.

(b) During such time or times that the corporation is subject to Section 2115(b) of the CGCL, the Board of Directors or any individual director may be removed from office at any time without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such removal; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against such

director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

Section 21. Meetings

(a) Annual Meetings. The annual meeting of the Board of Directors shall be held immediately before or after the annual meeting of stockholders and at the place where such meeting is held. No notice of an annual meeting of the Board of Directors shall be necessary and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Regular Meetings. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may be held at any time or date and at any place within or without the State of Delaware which has been designated by the Board of Directors and publicized among all directors. No formal notice shall be required for a regular meeting of the Board of Directors. (Del. Code Ann., tit 8, § 141(g))

(c) Special Meetings. Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or any two of the directors. (Del. Code Ann., tit. 8, § 141(g))

(d) Telephone Meetings. Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. (Del. Code Ann., tit. 8, § 141 (i))

(e) Notice of Meetings. Notice of the time and place of all meetings of the Board of Directors shall be orally or in writing, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means, during normal business hours, at least twenty-four (24) hours before the date and time of the meeting, or sent in writing to each director by first class mail, postage prepaid, at least three (3) days before the date of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. (Del. Code Ann., tit. 8, § 229)

(f) Waiver of Notice. The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present shall sign a written waiver of notice. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting. (Del. Code Ann., tit. 8, § 229)

Section 22. Quorum and Voting.

(a) Unless the Certificate of Incorporation requires a greater number and except with respect to indemnification questions arising under Section 43 hereof, for which a quorum shall be one-third of the exact number of directors fixed from time to time, a quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time by the Board of Directors in accordance with the Certificate of Incorporation; *provided, however*, at any meeting, whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting. (Del. Code Ann., tit. 8, § 141(b))

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by the affirmative vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation or these Bylaws. (Del. Code Ann., tit. 8, § 141(b))

Section 23. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors or committee. (Del. Code Ann., tit. 8, § 141(f))

Section 24. Fees and Compensation. Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor. (Del. Code Ann., tit. 8, § 141(h))

Section 25. Committees.

(a) **Executive Committee.** The Board of Directors may appoint an Executive Committee to consist of one (1) or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and provided in the resolution of the Board of Directors shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any bylaw of the corporation. (Del. Code Ann., tit. 8, § 141(c))

(b) Other Committees. The Board of Directors may, from time to time, appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one (1) or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall any such committee have the powers denied to the Executive Committee in these Bylaws. (Del. Code Ann., tit. 8, § 141 (c))

(c) Term. Each member of a committee of the Board of Directors shall serve a term on the committee coexistent with such member's term on the Board of Directors. The Board of Directors, subject to any requirements of any outstanding series of Preferred Stock, the provisions of subsections (a) or (b) of this Bylaw may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member shall terminate on the date of his death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. (Del. Code Ann., tit. 8, § 141(c))

(d) Meetings. Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 25 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee. (Del. Code Ann., tit. 8, §§ 141(c), 229)

Section 26. Organization. At every meeting of the directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or if the President is absent, the most senior Vice President, (if a director) or, in the absence of any such person, a chairman of the meeting chosen by a majority of the directors present, shall preside over the meeting. The Secretary, or in his absence, any Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

ARTICLE V

OFFICERS

Section 27. Officers Designated. The officers of the corporation shall include, if and when designated by the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, the Treasurer and the Controller, all of whom shall be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint one or more Assistant Secretaries, Assistant Treasurers, Assistant Controllers and such other officers and agents with such powers and duties as it shall deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as it shall deem appropriate. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors. (Del. Code Ann., tit. 8, §§ 122(5), 142(a), (b))

Section 28. Tenure and Duties of Officers.

(a) General. All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors. (Del. Code Ann., tit. 8, § 141(b), (e))

(b) Duties of Chairman of the Board of Directors. The Chairman of the Board of Directors, when present, shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. If there is no President, then the Chairman of the Board of Directors shall also serve as the Chief Executive Officer of the corporation and shall have the powers and duties prescribed in paragraph (c) of this Section 28. (Del. Code Ann., tit. 8, § 142(a))

(c) Duties of President. The President shall preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. Unless some other officer has been elected Chief Executive Officer of the corporation, the President shall be the chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the corporation. The President shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. (Del. Code Ann., tit. 8, § 142(a))

(d) Duties of Vice Presidents. The Vice Presidents may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. (Del. Code Ann., tit. 8, § 142(a))

(e) Duties of Secretary. The Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties given him in these Bylaws and other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. (Del. Code Ann., tit. 8, § 142(a))

(f) Duties of Chief Financial Officer. The Chief Financial Officer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. (Del. Code Ann., tit. 8, § 142(a))

Section 29. Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

Section 30. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract with the resigning officer. (Del. Code Ann., tit. 8, § 142(b))

Section 31. Removal. Any officer may be removed from office at any time, either with or without cause, by the affirmative vote of a majority of the directors in office at the time, or by the unanimous written consent of the directors in office at the time, or by any committee superior officers upon whom such power of removal may have been conferred by the Board of Directors.

ARTICLE VI

EXECUTION OF CORPORATE INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION

Section 32. Execution of Corporate Instruments. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the corporation. (Del. Code Ann., tit. 8, §§ 103(a), 142(a), 158)

All checks and drafts drawn on banks or other depositories on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount. (Del. Code Ann., tit. 8, §§ 103(a), 142(a), 158).

Section 33. Voting of Securities Owned by the Corporation. All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the Chief Executive Officer, the President, or any Vice President. (Del. Code Ann., tit. 8, § 123)

ARTICLE VII

SHARES OF STOCK

Section 34. Form and Execution of Certificates. Certificates for the shares of stock of the corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the corporation shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman of the Board of Directors, or the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall

have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or shall, except as otherwise required by law, set forth on the face or back a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section or otherwise required by law or with respect to this section a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise expressly provided by law, the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical. (Del. Code Ann., tit. 8, § 158)

Section 35. Lost Certificates. A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to agree to indemnify the corporation in such manner as it shall require or to give the corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed. (Del. Code Ann., tit. 8, § 167)

Section 36. Transfers.

(a) Transfers of record of shares of stock of the corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a properly endorsed certificate or certificates for a like number of shares. (Del. Code Ann., tit. 8, § 201, tit. 6, § 8- 401(1))

(b) The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the Delaware General Corporation Law. (Del. Code Ann., tit. 8, § 160 (a))

Section 37. Fixing Record Dates.

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of

Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, subject to applicable law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. (Del. Code Ann., tit. 8, § 213)

Section 38. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other

claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware. (Del. Code Ann., tit. 8, §§ 213(a), 219)

ARTICLE VIII

OTHER SECURITIES OF THE CORPORATION

Section 39. Execution of Other Securities. All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 34), may be signed by the Chairman of the Board of Directors, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; *provided, however*, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

ARTICLE IX

DIVIDENDS

Section 40. Declaration of Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation and applicable law, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation and applicable law. (Del. Code Ann., tit. 8, §§ 170, 173)

Section 41. Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created. (Del. Code Ann., tit. 8, § 171)

ARTICLE X

FISCAL YEAR

Section 42. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

ARTICLE XI

INDEMNIFICATION

Section 43. Indemnification of Directors, Executive Officers, Other Officers, Employees and Other Agents.

(a) Directors and Executive Officers. The corporation shall indemnify its directors and executive officers (for the purposes of this Article XI, “executive officers” shall have the meaning defined in Rule 3b-7 promulgated under the 1934 Act) to the fullest extent not prohibited by the Delaware General Corporation Law or any other applicable law; *provided, however*, that the corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers; and, *provided, further*, that the corporation shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law or any other applicable law or (iv) such indemnification is required to be made under subsection (d).

(b) Other Officers, Employees and Other Agents. The corporation shall have power to indemnify its other officers, employees and other agents as set forth in the Delaware General Corporation Law or any other applicable law. The Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person, except executive officers, to such officers or other persons as the Board of Directors shall determine.

(c) Expenses. The corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the corporation, or is or was serving at the request of the corporation as a director or executive officer of another corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or executive officer in connection with such proceeding upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this Bylaw or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this Bylaw, no advance shall be made by the corporation to an executive officer of the corporation (except by reason of the fact that such executive officer is or was a director of the corporation, in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to the proceeding, or (ii) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

(d) Enforcement. Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers under this Bylaw shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the corporation and the director or executive officer. Any right to indemnification or advances granted by this Bylaw to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting his claim. In connection with any claim for indemnification, the corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law or any other applicable law for the corporation to indemnify the claimant for the amount claimed. In connection with any claim by an executive officer of the corporation (except in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such executive officer is or was a director of the corporation) for advances, the corporation shall be entitled to raise a defense as to any such action clear and convincing evidence that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation, or with respect to any criminal action or proceeding that such person acted without reasonable cause to believe that his conduct was lawful. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Delaware General Corporation Law or any other applicable law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct. In any suit brought by a director or executive officer to enforce a right to indemnification or to an advancement of expenses hereunder, the burden of proving that the director or executive officer is not entitled to be indemnified, or to such advancement of expenses, under this Article XI or otherwise shall be on the corporation.

(e) Non-Exclusivity of Rights. The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any applicable statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the Delaware General Corporation Law or any other applicable law.

(f) Survival of Rights. The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) Insurance. To the fullest extent permitted by the Delaware General Corporation Law, or any other applicable law, the corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Bylaw.

(h) Amendments. Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

(i) Saving Clause. If this Bylaw or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this Bylaw that shall not have been invalidated, or by any other applicable law. If this Section 43 shall be invalid due to the application of the indemnification provisions of another jurisdiction, then the corporation shall indemnify each director and executive officer to the full extent under applicable law.

(j) Certain Definitions. For the purposes of this Bylaw, the following definitions shall apply:

(1) The term “proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term “expenses” shall be broadly construed and shall include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term the “corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any

person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(4) References to a “director,” “executive officer,” “officer,” “employee,” or “agent” of the corporation shall include, without limitation, situations where such person is serving at the request of the corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(5) References to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Bylaw.

ARTICLE XII

NOTICES

Section 44. Notices.

(a) Notice to Stockholders. Whenever, under any provisions of these Bylaws, notice is required to be given to any stockholder, it shall be given in writing, timely and duly deposited in the United States mail, postage prepaid, and addressed to his last known post office address as shown by the stock record of the corporation or its transfer agent. (Del. Code Ann., tit. 8, § 222).

(b) Notice to Directors. Any notice required to be given to any director may be given by the method stated in subsection (a), or by overnight delivery service, facsimile, telex or telegram, except that such notice other than one which is delivered personally shall be sent to such address as such director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such director.

(c) Affidavit of Mailing. An affidavit of mailing, executed by a duly authorized and competent employee of the corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, or director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall in the absence of fraud, be prima facie evidence of the facts therein contained. (Del. Code Ann., tit. 8, § 222)

(d) Time Notices Deemed Given. All notices given by mail or by overnight delivery service, as above provided, shall be deemed to have been given as at the time of mailing, and all notices given by facsimile, telex or telegram shall be deemed to have been given as of the sending time recorded at time of transmission.

(e) Methods of Notice. It shall not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(f) Failure to Receive Notice. The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent him in the manner above provided, shall not be affected or extended in any manner by the failure of such stockholder or such director to receive such notice.

(g) Notice to Person with Whom Communication Is Unlawful. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

(h) Notice to Person with Undeliverable Address. Whenever notice is required to be given, under any provision of law or the Certificate of Incorporation or Bylaws of the corporation, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings or of the taking of action by written consent without a meeting to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve- month period, have been mailed addressed to such person at his address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the corporation a written notice setting forth his then current address, the requirement that notice be given to such person shall be reinstated. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this paragraph. (Del. Code Ann, tit. 8. § 230)

ARTICLE XIII

AMENDMENTS

Section 45. Amendments. Subject to paragraph (h) of Section 43 of the Bylaws, these Bylaws may be amended or repealed and new Bylaws adopted by the stockholders entitled to vote. The Board of Directors shall also have the power, if such power is conferred upon the Board of Directors by the Certificate of Incorporation, to adopt, amend, or repeal Bylaws (including, without limitation, the amendment of any Bylaw setting forth the number of Directors who shall constitute the whole Board of Directors). (Del. Code Ann., tit. 8, §§ 109(a), 122(6)).

ARTICLE XIV

RIGHT OF FIRST REFUSAL

Section 46. Right of First Refusal. No common stockholder shall sell, assign, pledge, or in any manner transfer any of the shares of stock, of the corporation or any right or interest therein, whether voluntarily or by operation of law, or by gift or otherwise, except by a transfer which meets the requirements hereinafter set forth in this bylaw:

(a) If the common stockholder desires to sell or otherwise transfer any of his shares of stock, then the common stockholder shall first give written notice thereof to the corporation. The notice shall name the proposed transferee and state the number of shares to be transferred, the proposed consideration, and all other terms and conditions of the proposed transfer.

(b) For thirty (30) days following receipt of such notice, the corporation shall have the option to purchase all (but not less than all) of the shares specified in the notice at the price and upon the terms set forth in such notice; *provided, however*, that, with the consent of the common stockholder, the corporation shall have the option to purchase a lesser portion of the shares specified in said notice at the price and upon the terms set forth therein. In the event of a gift, property settlement or other transfer in which the proposed transferee is not paying the full price for the shares, and that is not otherwise exempted from the provisions of this Section 46, the price shall be deemed to be the fair market value of the stock at such time as determined in good faith by the Board of Directors. In the event the corporation elects to purchase all of the shares or, with consent of the common stockholder, a lesser portion of the shares, it shall give written notice to the transferring common stockholder of its election and settlement for said shares shall be made as provided below in paragraph (d).

(c) The corporation may assign its rights hereunder.

(d) In the event the corporation and/or its assignee(s) elect to acquire any of the shares of the transferring common stockholder as specified in said transferring common stockholder's notice, the Secretary of the corporation shall so notify the transferring common stockholder and settlement thereof shall be made in cash within thirty (30) days after the Secretary of the corporation receives said transferring common stockholder's notice; provided

that if the terms of payment set forth in said transferring common stockholder's notice were other than cash against delivery, the corporation and/or its assignee(s) shall pay for said shares on the same terms and conditions set forth in said transferring common stockholder's notice.

(e) In the event the corporation and/or its assignees(s) do not elect to acquire all of the shares specified in the transferring common stockholder's notice, said transferring common stockholder may, within the sixty-day period following the expiration of the option rights granted to the corporation and/or its assignees(s) herein, transfer the shares specified in said transferring common stockholder's notice which were not acquired by the corporation and/or its assignees(s) as specified in said transferring common stockholder's notice. All shares so sold by said transferring common stockholder shall continue to be subject to the provisions of this bylaw in the same manner as before said transfer.

(f) Anything to the contrary contained herein notwithstanding, the following transactions shall be exempt from the provisions of this bylaw:

(1) A common stockholder's transfer of any or all shares held either during such common stockholder's lifetime or on death by will or intestacy to such common stockholder's immediate family or to any custodian or trustee for the account of such common stockholder or such common stockholder's immediate family or to any limited partnership of which the common stockholder, members of such common stockholder's immediate family or any trust for the account of such common stockholder or such common stockholder's immediate family will be the general or limited partner(s) of such partnership. "Immediate family" as used herein shall mean spouse, lineal descendant, father, mother, brother, or sister of the common stockholder making such transfer.

(2) A common stockholder's bona fide pledge or mortgage of any shares with a commercial lending institution, provided that any subsequent transfer of said shares by said institution shall be conducted in the manner set forth in this bylaw.

(3) A common stockholder's transfer of any or all of such common stockholder's shares to the corporation or to any other common stockholder of the corporation.

(4) A common stockholder's transfer of any or all of such common stockholder's shares to a person who, at the time of such transfer, is an officer or director of the corporation.

(5) A corporate common stockholder's transfer of any or all of its shares pursuant to and in accordance with the terms of any merger, consolidation, reclassification of shares or capital reorganization of the corporate common stockholder, or pursuant to a sale of all or substantially all of the stock or assets of a corporate common stockholder.

(6) A corporate common stockholder's transfer of any or all of its shares to any or all of its common stockholders.

(7) A transfer by a common stockholder which is a limited or general partnership to any or all of its partners or former partners.

In any such case, the transferee, assignee, or other recipient shall receive and hold such stock subject to the provisions of this bylaw, and there shall be no further transfer of such stock except in accord with this bylaw.

(g) The provisions of this bylaw may be waived with respect to any transfer either by the corporation, upon duly authorized action of its Board of Directors, or by the common stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation (excluding the votes represented by those shares to be transferred by the transferring common stockholder). This bylaw may be amended or repealed either by a duly authorized action of the Board of Directors or by the common stockholders, upon the express written consent of the owners of a majority of the voting power of the corporation.

(h) Any sale or transfer, or purported sale or transfer, of securities of the corporation shall be null and void unless the terms, conditions, and provisions of this bylaw are strictly observed and followed.

(i) The foregoing right of first refusal shall terminate on either of the following dates, whichever shall first occur:

(1) On January 1, 2010; or

(2) Upon the date securities of the corporation are first offered to the public pursuant to a registration statement filed with, and declared effective by, the United States Securities and Exchange Commission under the Securities Act of 1933, as amended.

(j) The certificates representing shares of stock of the corporation shall bear on their face the following legend so long as the foregoing right of first refusal remains in effect:

“THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A RIGHT OF FIRST REFUSAL OPTION IN FAVOR OF THE CORPORATION AND/OR ITS ASSIGNEE(S), AS PROVIDED IN THE BYLAWS OF THE CORPORATION.”

ARTICLE XV

LOANS TO OFFICERS

Section 47. Loans to Officers. The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in these Bylaws shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute. (Del. Code Ann., tit. 8, §143)

ARTICLE XVI

MISCELLANEOUS

Section 48. Annual Report.

(a) Subject to the provisions of paragraph (b) of this Bylaw, the Board of Directors shall cause an annual report to be sent to each stockholder of the corporation not later than one hundred twenty (120) days after the close of the corporation's fiscal year. Such report shall include a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year, accompanied by any report thereon of independent accounts or, if there is no such report, the certificate of an authorized officer of the corporation that such statements were prepared without audit from the books and records of the corporation. When there are more than 100 stockholders of record of the corporation's shares, as determined by Section 605 of the CGCL, additional information as required by Section 1501(b) of the CGCL shall also be contained in such report, provided that if the corporation has a class of securities registered under Section 12 of the 1934 Act, that Act shall take precedence. Such report shall be sent to stockholders at least fifteen (15) days prior to the next annual meeting of stockholders after the end of the fiscal year to which it relates.

(b) If and so long as there are fewer than 100 holders of record of the corporation's shares, the requirement of sending of an annual report to the stockholders of the corporation is hereby expressly waived.

CERTIFICATE OF SECRETARY

I HEREBY CERTIFY THAT:

I am the duly elected and acting Secretary of **QUALYS INC.**, a Delaware corporation (the "Company"); and

Attached hereto is a complete and accurate copy of the Bylaws of the Company as duly adopted by the Board of Directors by Unanimous Written Consent dated at a duly called and held meeting of the Board of Directors on January 15, 2000 and said Bylaws are presently in effect.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the Company this 9th day of February, 2000.

/s/ MATTHEW B. HEMINGTON

MATTHEW B. HEMINGTON

Secretary

QUALYS, INC.
AMENDED AND RESTATED
INVESTOR RIGHTS AGREEMENT
JULY 12, 2005

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QUALYS, INC.
(a Delaware corporation)

AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT

AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT (the "Agreement") is entered into as of July 12, 2005, and amends, restates and otherwise, supersedes in its entirety that certain Amended and Restated Investor Rights Agreement dated November 12, 2004, by and among Qualys, Inc. a Delaware corporation (the "Company"); the investors listed on *Exhibit A* hereto, referred to hereinafter collectively as the "Investors" and each individually as an "Investor"; provided, however, that for purposes of Sections 4, 5 and 6 hereof only, the Founder listed on *Exhibit A* hereto, shall be referred to hereinafter collectively as the "Founders" and each individually as a "Founder"

RECITALS

WHEREAS, certain of the Investors (the "Prior Investors") are holders of the Company's Series A Preferred Stock (the "Series A Stock"), Series B Preferred Stock (the "Series B Stock") and Series C Preferred Stock (the "Series C Stock" and, together with the Series A Stock and Series B Stock, the "Prior Preferred Stock" or the "Preferred Stock") have previously entered into that certain Amended and Restated Investor Rights Agreement dated November 12, 2004 by and between the Company and the Prior Investors (the "Prior Agreement");

WHEREAS, certain investors (the "Series C Warrant Holders") are purchasing notes and warrants to purchase shares of Series C Stock pursuant to that certain Note and Warrant Purchase Agreement of even date herewith ("2005 Note and Warrant Purchase Agreement");

WHEREAS, as consideration for and to induce the Series C Warrant Holders to enter into the 2005 Note and Warrant Purchase Agreement, the Company and the Prior Investors agree that the Prior Agreement shall be superseded in its entirety by the rights and obligations set forth in this Agreement; and

WHEREAS, in consideration of the foregoing, the parties desire to enter into this Agreement in order to grant registration, information rights, and other rights to the Investors as set forth below;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto mutually agree as follows:

SECTION 1. GENERAL 1.1 Certain Definitions.

As used in this Agreement the following terms shall have the following respective meanings:

“Common Stock” means the common stock, par value \$0.001, of the Company.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Form S-3” means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

“Holder” means any person owning of record Registrable Securities that have not been sold to the public or any assignee of record of such Registrable Securities in accordance with Section 2.10 hereof.

“Initial Offering” means the Company’s first firm commitment underwritten public offering of its Common Stock registered under the Securities Act at a minimum public offering price per share of \$1.20 (as adjusted for any Recapitalizations), which results in gross proceeds to the Company of \$20,000,000 or greater.

“Recapitalization” means any stock dividend, combination, split, recapitalization and the like with respect to shares of capital stock of the Company effected after the date hereof.

“Register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

“Registrable Securities” means (a) Common Stock of the Company issued or issuable upon conversion of the Shares; (b) an aggregate of 6,379,937 shares of Common Stock issued or issuable on exercise of those warrants issued pursuant to the Note and Warrant Purchase Agreements entered into by the Company and the investors named therein between the period commencing on June 7, 2002 and ending on May 9, 2003; (c) shares of Common Stock of the Company issued or issuable upon the conversion of the shares of Series C Stock exercisable pursuant to Warrants issued in connection with the 2005 Note and Warrant Purchase Agreement (“Series C Warrant Shares”); and (d) any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right, or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, such above-described securities. Notwithstanding the foregoing, Registrable Securities shall not include any securities sold by a person to the public either pursuant to a registration statement or Rule 144 or sold in a private transaction in which the transferor’s rights under Section 2 of this Agreement are not assigned.

“Registrable Securities then outstanding” shall be the number of shares determined by calculating the total number of shares of the Company’s Common Stock that are Registrable Securities and either (a) are then issued and outstanding or (b) are issuable pursuant to then exercisable or convertible securities.

“Registration Expenses” shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3 and 2.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements of a single special counsel for the Holders, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

“SEC” or “Commission” means the Securities and Exchange Commission.

“Securities Act” shall mean the Securities Act of 1933, as amended.

“Selling Expenses” shall mean all underwriting discounts and selling commissions applicable to the sale.

“Shares” shall mean the Company’s Preferred Stock held by the Prior Investors and their permitted assigns.

“Special Registration Statement” shall mean (i) a registration statement relating to any employee benefit plan or (ii) with respect to any corporate reorganization or other transaction under Rule 145 of the Securities Act, including any registration statements related to the issuance or resale of securities issued in such a transaction.

“Transfer” means any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by request, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary or by operation of law, directly or indirectly, of any of the Shares, *except for*, Transfers to parties which may be assignees of rights pursuant to Section 2.10 hereof.

SECTION 2. REGISTRATION; RESTRICTIONS ON TRANSFER

2.1 Restrictions on Transfer. (a) Each Holder agrees not to make any disposition of all or any portion of the Shares or Registrable Securities unless and until:

(i) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(ii) (A) The transferee has agreed in writing to be bound by the terms of this Agreement, including without limitation, Sections 2.1 and 2.13 hereof, (B) such Holder shall have notified the Company in writing of the proposed disposition and shall have furnished the

Company with a detailed statement of the manner and circumstances surrounding the proposed disposition, and (C) if reasonably requested by the Company, such Holder shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such shares under the Securities Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances. It is further agreed that the subclauses (A) and (B) above shall not apply with respect to transactions made pursuant to Rule 144 after the Company's initial public offering.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) above, no such registration statement or opinion of counsel shall be necessary for a transfer by a Holder which is (A) a partnership to its partners or former partners in accordance with partnership interests, (B) a limited liability company to its members or former members in accordance with their interest in the limited liability company, or (C) to the Holder's family member or trust for the benefit of an individual Holder; *provided* that in each case (x) the transferee will agree in writing to be subject to the terms of this Agreement to the same extent as if he were an original Holder hereunder and (y) the Holder thereof shall give written notice to the Company of such Holder's intention to effect such disposition and shall have furnished the Company with a detailed description of the manner and circumstances of the proposed disposition.

(b) Each certificate representing Shares or Registrable Securities shall (unless otherwise permitted by the provisions of the Agreement) be stamped or otherwise imprinted with a legend substantially similar to the following (in addition to any legend required under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS PURSUANT TO REGISTRATION OR AN EXEMPTION THEREFROM OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT BY AND BETWEEN THE STOCKHOLDER AND THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

(c) The Holders consent to the Company making a notation on its records and giving instructions to any transfer agent of the Registrable Securities in order to implement the restrictions on transfer established in this Section 2.1

(d) The Company shall be obligated to reissue promptly unlegended certificates at the request of any Holder thereof if the Holder shall have obtained an opinion of counsel (which counsel may be counsel to the Company) reasonably acceptable to the Company to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend.

(e) Any legend endorsed on an instrument pursuant to applicable state securities laws and the stop-transfer instructions with respect to such securities shall be removed upon receipt by the Company of an order of the appropriate blue sky authority authorizing such removal.

2.2 Demand Registration. (a) Subject to the conditions of this Section 2.2, if the Company shall receive a written request from the Holders of a majority of the Registrable Securities (the "Initiating Holders") that the Company file a registration statement under the Securities Act covering the registration, then the Company shall, within thirty (30) days of the receipt thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 2.2, effect, as expeditiously as reasonably possible, the registration under the Securities Act of all Registrable Securities that the Holders request to be registered.

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2.2 or any request pursuant to Section 2.4 and the Company shall include such information in the written notice referred to in Section 2.2(a) or Section 2.4(a), as applicable. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by a majority in interest of the Initiating Holders (which underwriter or underwriters shall be reasonably acceptable to the Company). Notwithstanding any other provision of this Section 2.2 or Section 2.4, if the underwriter advises the Company that marketing factors require a limitation of the number of securities to be underwritten (including Registrable Securities) then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated to the Holders of such Registrable Securities on a *pro rata* basis based on the number of Registrable Securities held by all such Holders (including the Initiating Holders). Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) The Company shall not be required to effect a registration pursuant to this Section 2.2:

(i) prior to the earlier of (A) December 31, 2006 or (B) one hundred eighty (180) days following the effective date of the registration statement pertaining to the Initial Offering;

(ii) after the Company has effected two (2) registrations pursuant to this Section 2.2, and such registration have been declared or ordered effective;

(iii) during the period starting with the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of the registration statement pertaining to a public offering other than pursuant to a Special Registration Statement; *provided* that the Company makes reasonable good faith efforts to cause such registration statement to become effective;

(iv) if within thirty (30) days of receipt of a written request from Initiating Holders pursuant to Section 2.2(a), the Company gives notice to the Holders of the Company's intention to file a registration statement for a public offering other than pursuant to a Special Registration Statement within ninety (90) days;

(v) if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2.2, a certificate signed by the Chairman of the Board stating that in the good faith judgment of the board of directors of the Company (the "Board of Directors"), it would be seriously detrimental to the Company and its stockholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders; *provided* that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period;

(vi) if the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 2.4 below; or

(vii) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

2.3 Piggyback Registrations. The Company shall notify all Holders of Registrable Securities in writing at least fifteen (15) days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company (including, but not limited to, registration statements relating to secondary offerings of securities of the Company, but excluding Special Registration Statements) and will afford each such Holder an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within fifteen (15) days after the above-described notice from the Company, so notify the Company in writing. Such notice shall state the intended method of disposition of the Registrable Securities by such Holder. If a Holder decides not to include all of its

Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(a) **Underwriting.** If the registration statement under which the Company gives notice under this Section 2.3 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities. In such event, the right of any such Holder to be included in a registration pursuant to this Section 2.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holders on a *pro rata* basis based on the total number of Registrable Securities held by such Holders; and third, to any shareholder of the Company (other than a Holder) having registration rights on a *pro rata* basis. No such reduction shall reduce the securities being offered by the Company for its own account to be included in the registration and underwriting. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter, delivered at least ten (10) business days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration. For any Holder which is a partnership or corporation, the partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing person shall be deemed to be a single "Holder," and any *pro rata* reduction with respect to such "Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "Holder", as defined in this sentence.

(b) **Right to Terminate Registration.** The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 2.5 hereof.

2.4 Form S-3 Registration. In case the Company shall receive from the Holders of at least 20% of the Registrable Securities a written request or requests that the Company effect a registration on Form S-3 (or any successor to Form S-3) or any similar short-form registration statement and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders of Registrable Securities; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company; *provided, however*, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2.4:

(i) if Form S-3 is not available for such offering by the Holders, or

(ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than one million dollars (\$1,000,000), or

(iii) if within thirty (30) days of receipt of a written request from any Holder or Holders pursuant to this Section 2.4, the Company gives notice to such Holder or Holders of the Company's intention to make a public offering within ninety (90) days, other than pursuant to a Special Registration Statement; or

(iv) if the Company shall furnish to the Holders a certificate signed by the Chairman of the Board of Directors stating that in the good faith judgement of the Board of Directors, it would be seriously detrimental to the Company and its stockholders for such Form S-3 registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders under this Section 2.4; *provided*, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period, or

(v) if the Company has, within the twelve (12) month period preceding the date of such request, already effected two (2) registrations on Form S-3 for the Holders pursuant to this Section 2.4, or

(vi) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) Subject to the foregoing, the Company shall file a Form S-3 registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. Registrations effected pursuant to this Section 2.4 shall not be counted as demands for registration or registrations effected pursuant to Sections 2.2 or 2.3, respectively.

2.5 Expenses of Registration. Except as specifically provided herein, all Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Section 2.2 or any registration under Section 2.3 or Section 2.4 herein shall be borne by the

Company. All Selling Expenses related to Registrable Securities incurred in connection with any registrations hereunder, shall be borne by the holders of the securities so registered *pro rata* on the basis of the number of shares so registered. The Company shall not, however, be required to pay for expenses of any registration proceeding begun pursuant to Section 2.2 or 2.4, the request of which has been subsequently withdrawn by the Initiating Holders unless (a) the withdrawal is based upon material adverse information concerning the Company of which the Initiating Holders were not aware at the time of such request or (b) the Holders of a majority of Registrable Securities agree to forfeit their right to one requested registration pursuant to Section 2.2 or Section 2.4, as applicable, in which event such right shall be forfeited by all Holders. If the Holders are required to pay the Registration Expenses, such expenses shall be borne by the holders of securities (including Registrable Securities) requesting such registration in proportion to the number of shares for which registration was requested. If the Company is required to pay the Registration Expenses of a withdrawn offering pursuant to clause (a) above, then the Holders shall not forfeit their rights pursuant to Section 2.2 or Section 2.4 to a demand registration.

2.6 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all reasonable commercial efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to sixty (60) days or, if earlier, until the Holder or Holders have completed the distribution related thereto. Notwithstanding any other provision of this Agreement, such Holder or Holders understand that there may be periods during which the Company's Board of Directors may determine, in good faith, that it is in the best interest of the Company and its stockholders to defer disclosure of non-public information until such information has reached a more advanced stage and that during such periods sales of Registrable Securities and the effectiveness of any registration statement covering Registrable Securities may be suspended or delayed. Such Holder or Holders agree that upon receipt of any notice from the Company of the development of any non-public information, such Holder or Holders will forthwith discontinue such Holder's or Holders' disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such Holder's or Holders' receipt of copies of an appropriately supplemented or amended prospectus and, if so directed by the Company, such Holder or Holders will use commercially reasonable efforts to deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's or Holders' possession, of the prospectus relating to such Registrable Securities current at the time of receipt of such notice. In the event the Company shall give any such notice, the applicable time period during which a Registration Statement is to remain effective shall be extended by the number of days during the period from and including the date of the giving of such notice to and including the date when each seller of a Registrable Security covered by such registration statement shall have received the copies of the appropriate supplemented or amended prospectus. The Company shall not be required to file, cause to become effective or maintain the effectiveness of any registration statement that contemplates a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in paragraph (a) above.

(c) Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its reasonable commercial efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; *provided* that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a "comfort" letter dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

2.7 Termination of Registration Rights. All registration rights granted under this Section 2 shall terminate and be of no further force and effect five (5) years after the date of the Company's Initial Offering. In addition, a Holder's registration rights shall expire if (a) the Company has completed its Initial Offering and is subject to the provisions of the Exchange Act, (b) such Holder (together with its affiliates, partners and former partners) holds less than 1 % of the

Company's outstanding Common Stock (treating all shares of convertible Preferred Stock on an as converted basis), or (c) all Registrable Securities held by and issuable to such Holder (and its affiliates, partners, former partners, members and former members) may be sold under Rule 144 (without regard to Rule 144(k)) during any ninety (90) day period. In the event Rule 144 ceases to be available, the Company shall continue to be obligated to take action under Section 2.2 until five years after the date of the Company's Initial Offering.

2.8 Delay of Registration; Furnishing Information.

(a) No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

(b) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the registration of their Registrable Securities.

(c) The Company shall have no obligation with respect to any registration requested pursuant to Section 2.2 or Section 2.4 if, due to the operation of subsection 2.2(b), the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in Section 2.2 or Section 2.4, whichever is applicable.

2.9 Indemnification. In the event any Registrable Securities are included in a registration statement under Sections 2.2, 2.3 or 2.4:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, directors, and members of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, partner, officer, director, underwriter or

controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided however*, that the indemnity agreement contained in this Section 2.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors, officers, or members or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, director, officer, or member, or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, officer, director, or member, or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Violation; *provided, however*, that the indemnity agreement contained in this Section 2.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; *provided further*, that in no event shall any indemnity and contribution (in the aggregate) under this Section 2.9 exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however*, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party

and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.9, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.9.

(d) If the indemnification provided for in this Section 2.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided*, that in no event shall any contribution and indemnity (in the aggregate) by a Holder hereunder exceed the net proceeds from the offering received by such Holder.

(e) The obligations of the Company and Holders under this Section 2.9 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

2.10 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned by a Holder to a transferee or assignee of Registrable Securities which (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member of a Holder, (b) is a Holder's family member or trust for the benefit of an individual Holder, or (c) acquires at least 500,000 shares of Registrable Securities (as adjusted for any Recapitalizations); *provided, however*, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned and (ii) such transferee shall agree to be subject to all restrictions set forth in this Agreement.

2.11 Amendment of Registration Rights. Any provision of this Section 2 may be amended and the observance thereof may be waived (either generally or in a particular instance and

either retroactively or prospectively), only with the written consent of the Company and the Holders of at least a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this Section 2.11 shall be binding upon each Holder and the Company. By acceptance of any benefits under this Section 2, Holders of Registrable Securities hereby agree to be bound by the provisions hereunder.

2.12 Limitation on Subsequent Registration Rights. Other than as provided in Section 6.10, after the date of this Agreement, the Company shall not, without the prior written consent of the Holders holding at least a majority of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that would grant such holder registration rights senior to those granted to the Holders hereunder.

2.13 "Market Stand-Off" Agreement; Agreement to Furnish Information. Each Holder hereby agrees that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock (or other securities) of the Company held by such Holder (other than those included in the registration and other than after-market acquired shares) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of a registration statement of an underwritten public offering of the Company (ninety (90) days if an offering other than the Company's initial underwritten public offering); *provided* that all officers and directors of the Company enter into similar agreements and the Company uses all reasonable efforts to obtain similar agreements from all other holders of at least 1% of the Company's voting securities; and *provided further* that Holders may distribute securities of the Company to partners or members of the Holder if such partners or members agree to be bound by this Section 2.13.

Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter that are consistent with the Holders obligations under this Section 2.13 or that are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, each Holder shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section 2.13 shall not apply to a Special Registration Statement. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Each Holder agrees that any transferee of any shares of Registrable Securities shall be bound by this Section 2.13.

2.14 Rule 144 Reporting. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its best commercial efforts to:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: (i) a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); (ii) a copy of the most recent annual or quarterly report of the Company filed with the SEC; and (iii) such other reports and documents as a Holder may reasonably request in connection with availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

SECTION 3. COVENANTS OF THE COMPANY

3.1 Basic Financial Information and Reporting. (a) The Company will maintain true books and records of account in which full and correct entries will be made of all its business transactions pursuant to a system of accounting established and administered in accordance with generally accepted accounting principles consistently applied, and will set aside on its books all such proper accruals and reserves as shall be required under generally accepted accounting principles consistently applied.

(b) So long as an Investor (together with its affiliated investment entities) shall own not less than three million eight hundred thousand (3,800,000) shares of Registrable Securities (as adjusted for any Recapitalizations) (a "Major Investor"), as soon as practicable after the end of each fiscal year of the Company, and in any event within one hundred twenty (120) days thereafter, to the extent requested by an Investor the Company will furnish each Major Investor a balance sheet of the Company, as at the end of such fiscal year, and a statement of income and a statement of cash flows of the Company, for such year, all prepared in accordance with generally accepted accounting principles consistently applied and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail. Such financial statements shall be accompanied by a report and opinion thereon by independent public accountants of national standing selected by the Company's Board of Directors.

(c) The Company will furnish each Major Investor, as soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company, and in any event within forty-five (45) days thereafter, to the extent requested by a Major Investor, a balance sheet of the Company as of the end of each such quarterly period, and a statement of income and a statement of cash flows of the Company for such period and for the current fiscal year to date, prepared in accordance with generally accepted accounting principles, with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

(d) To the extent requested by a Major Investor that has a designee appointed to the Company's Board of Directors, the Company will furnish each such Major Investor (i) at least thirty (30) days prior to the beginning of each fiscal year an annual budget and operating plans for such fiscal year (and as soon as available, any subsequent revisions thereto); and (ii) as soon as practicable after the end of each month, and in any event within twenty (20) days thereafter, a balance sheet of the Company as of the end of each such month, and a statement of income and a statement of cash flows of the Company for such month and for the current fiscal year to date, including a comparison to plan figures for such period, prepared in accordance with generally accepted accounting principles consistently applied, with the exception that no notes need be attached to such statements and year-end audit adjustments may not have been made.

3.2 Inspection Rights. Each Major Investor shall have the right to visit and inspect any of the properties of the Company or any of its subsidiaries, and to discuss the affairs, finances and accounts of the Company or any of its subsidiaries with its officers, and to review such information as is reasonably requested all at such reasonable times and as often as may be reasonably requested; *provided, however*, that the Company shall not be obligated under this Section 3.2 with respect to a competitor of the Company or with respect to information which the Board of Directors determines in good faith is confidential or attorney-client privileged (following consultation with counsel) and should not, therefore, be disclosed.

3.3 Confidentiality of Records. Each Investor agrees to use, and to use its best efforts to ensure that its authorized representatives use, the same degree of care as such Investor uses to protect its own confidential information to keep confidential any information furnished to it which the Company identifies as being confidential or proprietary (so long as such information is not in the public domain), except that such Investor may disclose such proprietary or confidential information to any partner, subsidiary or parent of such Investor for the purpose of evaluating its investment in the Company as long as such partner, subsidiary or parent is advised of the confidentiality provisions of this Section 3.3.

Notwithstanding anything herein to the contrary, any party to this Agreement (and any employee, representative, or other agent of any party to this Agreement) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure; and, that such disclosure may also be made to the extent reasonably necessary to comply with any applicable federal or state securities laws. For the purposes of the foregoing sentence, (i) the "tax treatment" of a transaction means the purported or claimed federal income tax treatment of the transaction, and (ii) the "tax structure" of a transaction means any fact that may be relevant to understanding the purported or claimed federal income tax treatment of the transaction.

Thus, for the avoidance of doubt, the parties acknowledge and agree that the tax treatment and tax structure of any transaction does not include the name of any party to a transaction or any sensitive business information (including, without limitation, the name and other specific information about any party's intellectual property or other proprietary assets) unless such information may be related or relevant to the purported or claimed federal income tax treatment of the transaction.

3.4 Reservation of Common Stock. The Company will at all times reserve and keep available, solely for issuance and delivery upon the conversion of the Preferred Stock, all Common Stock issuable from time to time upon such conversion.

3.5 Stock Vesting. Unless otherwise approved by the Board of Directors, all stock options and other stock equivalents issued after the date of this Agreement to employees, directors, consultants and other service providers shall be subject to vesting as follows: (a) twenty-five percent (25%) of such stock shall vest at the end of the first year following the earlier of the date of issuance or such person's services commencement date with the company, and (b) seventy-five percent (75%) of such stock shall vest ratably over the remaining three (3) years. With respect to any shares of stock purchased by any such person, the Company's repurchase option shall provide that upon such person's termination of employment or service with the Company, with or without cause, the Company or its assignee (to the extent permissible under applicable securities laws and other laws) shall have the option to purchase at cost any unvested shares of stock held by such person.

3.6 Proprietary Information and Inventions Agreement. The Company shall require all employees and consultants to execute and deliver a Proprietary Information and Inventions Agreement in the form attached to the Purchase Agreement.

3.7 Assignment of Right of First Refusal. In the event the Company elects not to exercise any right of first refusal or right of first offer the Company may have on a proposed transfer of any of the Company's outstanding capital stock pursuant to the Company's charter documents, by contract or otherwise, the Company shall, to the extent it may do so, assign such right of first refusal or right of first offer to the Major Investors. In the event of such assignment, each Major Investor shall have a right to purchase its *pro rata* portion (as defined in Section 4.1) of the capital stock proposed to be transferred.

3.8 Operating Budget. The Board of Directors shall receive and approve an operating budget for the Company prior to the commencement of each fiscal year.

3.9 Covenants Related to the Subsidiary. The Company shall (i) cause Qualys Technologies, a French *societe anonyme* (the "Subsidiary") to refrain from issuing additional shares of its capital stock or from transferring all or any material assets (including material intellectual property assets and rights), and (ii) not transfer any of its assets (including intellectual property assets and rights) or cash (except for ordinary course expenses such as payroll and rent) to the Subsidiary, in each case without the prior approval of the Board (including at least one of the representatives of the Board appointed by the holders of Series B Stock).

3.10 Termination of Covenants. All covenants of the Company contained in Section 3 of this Agreement shall expire and terminate as to each Investor upon the earlier of (i) immediately prior to the closing of the Initial Offering or (ii) upon an Acquisition or Asset Transfer, each as

defined in the Company's Amended and Restated Certificate of Incorporation (the "Restated Certificate") as in effect on the date hereof (each, a "Change in Control")(unless the liquidation preference of the Holders in respect of such Change in Control is waived by the holders of Series C Stock and Series B Stock, respectively, pursuant to Article IV, Section (F)(3)(e)(i) or (ii) (as applicable) of the Restated Certificate (as applicable, a "Liquidation Waiver")).

3.11 **Stock Repurchases.** The Company shall not effect a repurchase or redemption of any shares of its capital stock other than (x) acquisitions of common stock issued to or held by employees, officers, directors or consultants of the Company or its subsidiaries upon termination of their employment or services pursuant to agreements providing for the right of said repurchase at cost (or the lesser of cost or fair market value) and (y) repurchases of securities having a value (i) in the case of repurchases from any individual stockholder, of \$100,000 or less as such repurchases are aggregated in any one (1) year period, and (ii) in the case of repurchases from all stockholders, of \$250,000 or less as such repurchases are aggregated in any one (1) year period, without the prior approval of the Board (including at least one of the representatives of the Board appointed by the holders of Series B Stock).

SECTION 4. RIGHTS TO MAINTAIN PROPORTIONATE OWNERSHIP

4.1 **Subsequent Offerings.** Each Major Investor and Philippe Courtot (the "Founder") shall have a right of first refusal to purchase its *pro rata* share of all Equity Securities, as defined below, that the Company may, from time to time, propose to sell and issue after the date of this Agreement, other than the Equity Securities excluded by Section 4.6 hereof. Each Major Investor and Founder's *pro rata* share is equal to the ratio of (a) the number of shares of the Company's Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares) which such Major Investor or Founder is deemed to be a holder immediately prior to the issuance of such Equity Securities to (b) the total number of shares of the Company's outstanding Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) immediately prior to the issuance of the Equity Securities. The term "Equity Securities" shall mean (i) any Common Stock, Preferred Stock or other equity security of the Company, (ii) any security convertible, with or without consideration, into any Common Stock, Preferred Stock or other security of the Company (including any option to purchase such a convertible security), (iii) any security carrying any warrant or right to subscribe to or purchase any Common Stock, Preferred Stock or other equity security of the Company or (iv) any such warrant or right of the Company.

4.2 **Exercise of Rights.** If the Company proposes to issue any Equity Securities, it shall give each Major Investor and Founder written notice of its intention, describing the Equity Securities, the price and the terms and conditions upon which the Company proposes to issue the same. Each Major Investor and Founder shall have fifteen (15) days from the giving of such notice to agree to purchase up to its *pro rata* share of the Equity Securities for the price and upon the terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of Equity Securities to be purchased. Notwithstanding the foregoing, the Company shall not be required to offer or sell such Equity Securities to any Major Investor or Founder who would cause the Company to be in violation of applicable federal securities laws by virtue of such offer or sale.

4.3 Issuance of Equity Securities to Other Persons. If not all of the Major Investors and Founder elect to purchase their *pro rata* share of the Equity Securities, then the Company shall promptly notify in writing the Major Investors and Founder who do so elect and shall offer such Major Investors and Founder the right to acquire such unsubscribed shares. The Major Investors and Founder shall have five (5) days after receipt of such notice to notify the Company of its election to purchase all or a portion thereof of the unsubscribed shares. If the Major Investors or Founder fail to exercise in full the rights of first refusal, the Company shall have ninety (90) days thereafter to sell the Equity Securities in respect of which the Major Investors' and Founder's rights were not exercised, at a price and upon general terms and conditions materially no more favorable to the purchasers thereof than specified in the Company's notice to the Major Investors and Founder pursuant to Section 4.2 hereof. If the Company has not sold such Equity Securities within ninety (90) days of the notice provided pursuant to Section 4.2, the Company shall not thereafter issue or sell any Equity Securities, without first offering such securities to the Major Investors and Founder in the manner provided above.

4.4 Termination and Waiver of Rights of First Refusal. The rights of first refusal established by this Section 4 shall not apply to, and shall terminate upon the earlier of (i) effective date of the registration statement pertaining to the Company's Initial Offering or (ii) a Change in Control (unless there has occurred as Liquidation Waiver). The rights of first refusal established by this Section 4 may be amended, or any provision waived with the written consent of Major Investors holding a majority of the Registrable Securities held by all Major Investors, or as permitted by Section 6.6.

4.5 Transfer of Rights of First Refusal. The rights of first refusal of each Major Investor and Founder under this Section 4 may be transferred to or amongst the same parties, subject to the same restrictions as any transfer of registration rights pursuant to Section 2.10.

4.6 Excluded Securities. The rights of first refusal established by this Section 4 shall have no application to any issuances of Equity Securities excluded from the definition of "Additional Shares of Common Stock" pursuant to Article IV, Section 4(i) (iv) of the Company's Restated Certificate.

SECTION 5. MAJOR INVESTOR RIGHT OF CO-SALE

5.1 Exercise of Rights. (a) If a Major Investor (the "Seller") proposes to Transfer any equity securities of the Company it holds, then the Seller shall promptly give written notice (the "Notice") simultaneously to the Company and to each of the other Major Investors at least forty-five (45) days prior to the closing of such Transfer. The Notice shall describe in reasonable detail the proposed Transfer including, without limitation, the type and amount of the equity securities proposed to be Transferred by the Seller (the "Offered Shares"), the nature of such Transfer, the consideration to be paid (the "Offered Price"), and the name and address of each prospective purchaser or transferee (the "Proposed Transferee").

(b) Subject to the limitations of this Section 5, each Major Investor shall have the right to participate in such sale of the Offered Shares on the same terms and conditions as specified in the Notice. To exercise its rights hereunder, each Major Investor other than the Seller (a "Selling Investor") must have provided a written notice to Seller within fifteen (15) days after receipt of the Notice (the "Initial Exercise Period") indicating the number of shares it holds that it wishes to sell pursuant to this Section 5.1(b).

(c) If the aggregate number of shares that the Selling Investors desire to sell (as evidenced by written notices delivered to Seller) exceeds the number of Offered Shares, each Selling Investor will be entitled to sell up to its pro rata share of the Offered Shares which shall be equal to that number of Offered Shares equal to the product obtained by multiplying (x) the number of Offered Shares by (y) a fraction, (i) the numerator of which shall be the number of shares of Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) held on the date of the Notice by such Selling Investor and (ii) the denominator of which shall be the number of shares of Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) held on the date of the Notice by Seller and the Selling Investors ("Pro Rata Co-Sale Share").

(d) Within ten (10) days after the Selling Investors have provided the notice specified in Section 5.1(b) to the Seller, Seller will give written notice to the Company and each Selling Investor specifying the number of Offered Shares to be sold by each Selling Investor exercising its Right of Co-Sale (the "Co-Sale Confirmation Notice"). The Co-Sale Confirmation Notice shall also specify the number of Offered Shares not offered by the Selling Investors, if any, pursuant to Section 5 hereof (the "Unsubscribed Offered Shares").

5.2 Subsequent Election to Sell by the Selling Investors. To the extent that there remain any Unsubscribed Offered Shares, each Selling Investor electing to exercise its right to sell at least its full Pro Rata Co-Sale Share of the Offered Shares under Section 5.1(c) hereof (a "Participating Co-Sale Investor") shall have a right to sell all or any part of the Unsubscribed Offered Shares; however, to the extent the aggregate number of additional shares that the Participating Co-Sale Investors desire to sell (as evidenced in written notices delivered to the Seller) exceeds the Unsubscribed Offered Shares, each Participating Co-Sale Investor so exercising (an "Electing Participating Co-Sale Investor") will be entitled to sell that number of the Unsubscribed Offered Shares equal to the product obtained by multiplying (x) the number of Unsubscribed Offered Shares by (y) a fraction, (i) the numerator of which shall be the number of shares of Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) held by such Electing Participating Co-Sale Investor on the date of the Notice and (ii) the denominator of which shall be the number of shares of Common Stock (including all shares of Common Stock issued or issuable upon conversion of the Shares or upon the exercise of any outstanding warrants or options) held on the date of the Notice by all Electing Participating Co-Sale Investors ("Subsequent Pro Rata Co-Sale Share"). In order to exercise its rights hereunder, such Electing Participating Co-Sale Investor must provide written notice to Seller with a copy to the Company and each Major Investor within ten (10) days after the date of the Co-Sale Confirmation Notice (the "Subsequent Co-Sale Period").

5.3 Closing; Consummation of the Co-Sale. Subject to compliance with applicable state and federal securities laws, the sale of the Offered Shares by the Selling Investors shall occur within five (5) days after the later of (i) delivery of the Co-Sale Confirmation Notice and (ii) expiration of the Subsequent Co-Sale Period (the “Co-Sale Closing”). If a Selling Investor exercised the Right of Co-Sale in accordance with this Section 5, then such Selling Investor shall deliver to Seller at or before the Co-Sale Closing, one or more certificates, properly endorsed for Transfer, representing the number of Offered Shares to which the Selling Investor is entitled to sell pursuant to this Section 5. At the Co-Sale Closing, Seller shall cause such certificates or other instruments to be Transferred and delivered to the Transferee pursuant to the terms and conditions specified in the Notice, and Seller will remit, or will cause to be remitted, to each Selling Investor, at the Co-Sale Closing, that portion of the proceeds of the Transfer to which each Selling Investor is entitled by reason of each Selling Investor’s participation in such Transfer pursuant to the Right of Co-Sale.

5.4 Seller’s Rights to Transfer. If any of the Offered Shares remain available after the exercise of all Rights of Co-Sale, then the Seller shall be free to Transfer, any such remaining shares to the Proposed Transferee at the Offered Price or a higher price in accordance with the terms set forth in the Notice; *provided, however*, that if the Offered Shares are not so Transferred during the ninety (90) day period following the deemed delivery of the Notice, then Seller may not Transfer any of such remaining Offered Shares without complying again in full with the provisions of this Agreement.

5.5 Conditions To Valid Transfer.

(a) **Generally.** Any attempt by any Seller to Transfer any Shares in violation of any provision of this Agreement will be void. No securities shall be transferred by Seller unless (i) such Transfer is made in compliance with all of the terms of this Agreement and all applicable federal and state securities laws and (ii) prior to such Transfer, the transferee or transferees sign a counterpart to this Agreement pursuant to which it or they agree to be bound by the terms of this Agreement. The Company will not be required to (i) transfer on its books any shares that have been sold, gifted or otherwise Transferred in violation of any provisions of this Agreement or (ii) to treat as owner of such shares, or accord the right to vote or pay dividends to any purchaser, donee or other transferee to whom such shares may have been so Transferred.

(b) **Put Right.** If a Seller Transfers any equity securities of the Company in contravention of the Right of Co-Sale under this Agreement (a “Prohibited Transfer”), or if the Proposed Transferee of Offered Shares desires to purchase a class, series or type of stock offered by Seller but not held by a Selling Investor, or the Proposed Transferee is unwilling to purchase any securities from a Selling Investor, such Selling Investor may, by delivery of written notice to such Seller (a “Put Notice”) within ten (10) days after the later of (i) the Co-Sale Closing and (ii) the date on which such Selling Investor becomes aware of the Prohibited Transfer or the terms thereof, require such Seller to purchase from such Selling Investor that number of shares of Preferred Stock

(on an as-converted basis) or Common Stock subject to this Section 5.5 that is equal to the number of Shares such Selling Investor would have been entitled to Transfer to the Proposed Transferee (the "Put Shares"). Such sale shall be made on the following terms and conditions:

(i) The price per share at which the Put Shares are to be sold to Seller shall be equal to the price per share that the Selling Investor would have received at the Co-Sale Closing of such Prohibited Transfer if such Selling Investor had sold such Put Shares at the Co-Sale Closing. Such purchase price of the Put Shares shall be paid in cash or such other consideration as Seller received in the Prohibited Transfer or at the Co-Sale Closing. Seller shall also reimburse the Selling Investor for any and all fees and expenses, including, but not limited to, legal fees and expenses, incurred pursuant to the exercise or attempted exercise of such Selling Investor's Rights of Co-Sale pursuant to Section 5 or in the exercise of its rights under this Section 5.5 with respect to the Put Shares.

(ii) The Put Shares to be sold to Seller shall be of the same class or type as Transferred in the Prohibited Transfer or at the Co-Sale Closing if such Selling Investor then owns securities of such class or type. If such Selling Investor does not own any of such class or type, the Put Shares shall be shares of Common Stock (or Preferred Stock convertible into Common Stock at the option of the holder thereof). The closing of such sale to Seller will occur within ten (10) days after the date of such Selling Investor's Put Notice to such Seller. At such closing, the Selling Investor shall deliver to Seller the certificate or certificates representing the Put Shares to be sold, each certificate to be properly endorsed for transfer, and immediately upon receipt thereof, such Seller shall pay the aggregate purchase price therefor, and the amount of reimbursable fees and expenses, as specified in Section 5.5(b)(i).

(c) Restrictive Legend and Stop Transfer Orders.

(i) **Legend.** Each Major Investor understands and agrees that the Company will cause the legend set forth below, or a legend substantially equivalent thereto, to be placed upon any certificate(s) or other documents or instruments evidencing ownership of Seller Shares by such:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO AND MAY ONLY BE SOLD, DISPOSED OF OR OTHERWISE TRANSFERRED IN COMPLIANCE WITH CERTAIN RIGHTS OF FIRST REFUSAL AND CO-SALE AS SET FORTH IN AN AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT ENTERED INTO BY THE HOLDER OF THESE SHARES, THE COMPANY AND CERTAIN STOCKHOLDERS OF THE COMPANY. A COPY OF SUCH AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY. SUCH RIGHTS OF CO-SALE ARE BINDING ON TRANSFEREES OF THESE SHARES.

(ii) **Stop Transfer Instructions.** In order to ensure compliance with the restrictions referred to herein, each Seller agrees that the Company may issue appropriate "stop transfer" certificates or instructions in the event of a Transfer in violation of any provision of this Agreement and that it may make appropriate notations to the same effect in its records.

(d) Exempt Transfers.

(i) Notwithstanding the foregoing, the co-sale rights of the Major Investors set forth in Section 5 shall not apply to (a) any transfer or transfers by a Major Investor of securities having a value (x) in the case of any individual Major Investor, of \$200,000 or less as such transfers are aggregated in any one (1) year period and (y) in the case of all Major Investors, of \$500,000 or less as such transfers are aggregated in any one (1) year period, (b) any transfers for no value of Equity Securities of the Company by a Major Investor to a Major Investor's partners, spouse, ex-spouse, domestic partner, lineal descendant or antecedent, brother or sister, the adopted child or adopted grandchild, or the spouse or domestic partner of any child, adopted child, grandchild or adopted grandchild of such Major Investor, or to a trust or trusts for the exclusive benefit of such Major Investor or those members of such Major Investor's family specified in this Section 5.5(d)(i) or transfers of Equity Securities of the Company by a Major Investor by devise or descent; *provided, however*, that, in all cases, the transferee or other recipient executes a counterpart copy of this Agreement and becomes bound thereby as was such Major Investor, (c) any *bona fide* gift effected for tax planning purposes, *provided, however*, that the pledgee, transferee or donee or other recipient executes a counterpart copy of this Agreement and becomes bound thereby as was the Major Investor, or, (d) any bona fide pledge made pursuant to a bona fide loan transaction that creates a mere security interest, if the pledgee executes a counterpart copy of this Agreement and becomes bound thereby as a Major Investor in the event that and to the extent that such pledgee ever acquires ownership of such shares, *provided, however*, that in the event of any transfer made pursuant to one of the exemptions provided by the clauses above, (1) the Major Investor shall inform the other Major Investors of such pledge, transfer or gift prior to effecting it and (2) the pledgee, transferee or donee shall enter into a written agreement to be bound by and comply with all provisions of this Agreement as if were an original "Major Investor" hereunder, including without limitation Section 2. Except with respect to Equity Securities of the Company transferred under clause (a) above (which Equity Securities of the Company shall no longer be subject to the Co-Sale rights of the Major Investors), such transferred Shares shall remain "Shares" hereunder (to the extent such Equity Securities were Shares), and such pledgee, transferee or donee shall be treated as the "Major Investor" for purposes of this Agreement. Notwithstanding the foregoing, any Equity Securities of the Company transferred pursuant to clause (a) above shall remain subject to any right of first refusal in favor of the Company set forth in the Company's Bylaws or in any stock purchase agreement.

(ii) If a Major Investor plans to make any of the above excepted transfers, then, prior to transferring its Equity Securities of the Company, such Major Investor shall deliver to the Company a written notice stating: (i) such Major Investor's bona fide intention to make an excepted transfer such Equity Securities; (ii) the name, address and phone number of each proposed transferee; (iii) the aggregate number of Equity Securities of the Company to be transferred to each proposed transferee; and (iv) the section in this agreement upon which such Major Investor is relying in making an excepted transfer.

Notwithstanding the foregoing, the provisions of Section 5 shall not apply to the sale of any Shares to the public pursuant to a registration statement filed with, and declared effective by, the Securities and Exchange Commission under the Securities Act.

5.6 Termination and Waiver of Rights of Co-Sale. The Rights of Co-Sale established by this Section 5 shall not apply to, and shall terminate upon the earlier of (i) effective date of the registration statement pertaining to the Company's Initial Offering or (ii) a Change in Control (unless there has occurred a Liquidation Waiver).

SECTION 6. MISCELLANEOUS

6.1 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Delaware as applied to agreements among Delaware residents entered into and to be performed entirely within Delaware, without regard to principles of conflicts of laws.

6.2 Survival. The covenants and agreements made herein shall survive any investigation made by any Holder and the closing of the transactions contemplated hereby. All statements as to factual matters contained in any certificate or other instrument delivered by or on behalf of the Company pursuant hereto in connection with the transactions contemplated hereby shall be deemed to be representations and warranties by the Company hereunder solely as of the date of such certificate or instrument.

6.3 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time; *provided, however*, that prior to the receipt by the Company of adequate written notice of the Transfer of any Registrable Securities specifying the full name and address of the Transferee, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes, including the payment of dividends or any redemption price.

6.4 Entire Agreement. This Agreement, the Exhibits and Schedules hereto, the Purchase Agreement and the other documents delivered pursuant thereto (the "Entire Agreement") constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and supersedes in its entirety the Prior Agreement, which shall have no further force and effect. No party shall be liable or bound to any other in any manner by any representations, warranties, covenants and agreements except as specifically set forth in the Entire Agreement.

6.5 Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

6.6 Amendment and Waiver.

(a) Except as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the holders of at least a majority of the Registrable Securities then outstanding.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the holders of at least a majority of the Registrable Securities then outstanding.

(c) Notwithstanding the foregoing, the addition of additional Series C Warrant Holders as “Investors,” “Holders” and parties hereto shall not constitute an amendment to this Agreement, provided that such Series C Warrant Holder has executed a counterpart signature page to this Agreement and agrees in writing to be bound by the terms and conditions of this Agreement.

(d) For the purposes of determining the number of Holders or Investors entitled to vote or exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.

(e) Notwithstanding the foregoing, any amendment, modification or termination of the rights of any Major Investor under this Agreement that would adversely affect its rights relative to or against other Major Investors shall require the written consent of such adversely affected Major Investor(s).

6.7 Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any party's part of any breach, default or noncompliance under the Agreement or any waiver on such party's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to any party, shall be cumulative and not alternative.

6.8 Notices. Unless otherwise provided, any notice required or permitted by this Agreement shall be in writing and shall be deemed given upon receipt or, if earlier, (a) five (5) days after deposit with the U.S. Postal Service or other applicable postal service, if delivered by first class mail, postage prepaid; (b) upon delivery, if delivered by hand; (c) one (1) business day after the business day of deposit with Federal Express or similar overnight courier, freight prepaid; or (d) one (1) business day after the business day of facsimile or electronic mail transmission (in each case with confirmation of receipt); provided, that, if delivered by facsimile or e-mail, such transmission shall be followed with a copy by first class mail, postage prepaid, and shall be addressed to the party to be notified at such party's address as set forth on the signature page or Exhibit A hereto (as applicable) or as subsequently modified by written notice.

6.9 Attorneys' Fees. In the event that any suit or action is instituted to enforce any provision in this Agreement, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

6.10 Additional Investors.

(a) Notwithstanding anything to the contrary contained herein, if the Company shall issue additional Series C Warrants pursuant to the 2005 Note and Warrant Purchase Agreement, any purchaser of such Series C Warrants may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed an "Investor" or "Holder" hereunder.

(b) Notwithstanding anything to the contrary contained herein, if the Company shall issue Equity Securities in accordance with Section 4.6 (c), (f) or (g) of this Agreement, any purchaser of such Equity Securities may become a party to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed an "Investor" hereunder.

6.11 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

6.12 Waiver of Notice and Right to Maintain Proportionate Ownership. In consideration of the benefits conferred upon the Company pursuant to the transactions contemplated by the 2005 Note and Warrant Purchase Agreement, each Prior Investor hereby irrevocably waives its right to maintain proportionate ownership with respect to the sale by the Company of the promissory notes and Series C Warrants issued in connection with the 2005 Note and Warrant Purchase Agreement, as such right is set forth in Section 4 of the Prior Agreement, together with any right to receive notice pursuant to such Section 4.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

COMPANY:

QUALYS, INC.

By: /s/ Eric Saltzman
Name: Eric Saltzman
Title: Chief Financial Officer

**[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

/s/ Mai Courtot

Mai Courtot

**[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

Trident Capital Fund-V, L.P.
Trident Capital Fund-V Affiliates Fund, L.P.
Trident Capital Fund-V Affiliates Fund (Q), L.P.
Trident Capital Fund-V Principals Fund, L.P.
Trident Capital Parallel Fund-V, C.V.

Executed on behalf of the foregoing funds by the undersigned, as an authorized signatory of the respective general partner of each such fund:

/s/ Donald R. Dixon

(signature)

Donald R. Dixon

(print name)

Trident Capital, Inc.

By: /s/ Donald R. Dixon

Title: Managing Director

**[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

GRP II, L.P., a Delaware limited partnership

By: GRPVC, L.P., its General Partner
By: GRP Management Services Corp., a Delaware corporation, its General Partner

By: /s/ Yves Sisteron

Name: Yves Sisteron

Title: President

GRP II PARTNERS, L.P., a Delaware limited partnership

By: GRPVC, L.P., its General Partner
By: GRP Management Services Corp., a Delaware corporation, its General Partner

By: /s/ Yves Sisteron

Name: Yves Sisteron

Title: President

GRP II INVESTORS, L.P., a Delaware limited partnership

By: GRP Management Services Corp., a Delaware corporation, its Attorney-in-Fact

By: /s/ Yves Sisteron

Name: Yves Sisteron

Title: President

Address: GRP Partners
2121 Avenue of the Stars, Suite 1630
Los Angeles, CA 90067

[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

/s/ Philippe F. Courtot
Philippe F. Courtot

**[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]**

IN WITNESS WHEREOF, the parties hereto have executed this **AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT** as of the date first above written.

Philippe Langlois

By: /s/ Philippe Courtot

Name: Philippe Courtot

Title: Authorized Proxy

**[AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
SIGNATURE PAGE]**

EXHIBIT A

LIST OF INVESTORS, FOUNDERS AND SERIES C WARRANT HOLDERS

LIST OF SERIES A INVESTORS

| <u>Investor</u> | <u>Number of Series A Shares</u> |
|--------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| ABS Investors, L.L.C. 225 Franklin Street, 25 th Floor Boston, MA 02110 Attn: Bruns Grayson | 244,186 |
| ABS Ventures, II, L.L.C. 225 Franklin Street, 25 th Floor Boston, MA 02110 Attn: Bruns Grayson | 3,466,139 |
| ABS Ventures, II, L.L.C. 225 Franklin Street, 25 th Floor Boston, MA 02110 Attn: Bruns Grayson | 4,572,457 |
| Philippe F. Courtot 757 Tennyson Avenue Palo Alto, CA 94303 | 15,799,560 |
| First TZMM Investment Partnership c/o Tomlinson Zisko LLP 200 Page Mill Road Palo Alto, CA 94306 Attn: Timothy Tomlinson | 82,827 |
| GC&H Investments One Maritime Plaza 20th Floor San Francisco, CA 94111 | 629,490 |
| Umang Gupta 523 Harvard Road San Mateo, CA 94402 | 165,657 |

| <u>Investor</u> | <u>Number of Series A Shares</u> |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Philippe Langlois c/o Qualys, Inc. 1326 Chesapeake Terrace Sunnyvale, CA 94089 | 202,928 |
| Gilles Samoun 1806 Van Buren Mountain View, CA 94040 | 211,210 |
| Arnold Schaeffer 2929 1st Avenue Apt 1302 Seattle, WA 98121 | 165,657 |
| Trident Capital Parallel Fund-V C.V. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 1,023,269 |
| Trident Capital Fund-V Principals Fund, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 326,245 |
| Trident Capital Fund-V Affiliates Fund, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 78,281 |
| Trident Capital Fund-V Affiliate Fund (Q), L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 74,698 |
| Trident Capital Fund-V, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 13,468,786 |

| <u>Investor</u> | <u>Number of Series A Shares</u> |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------|
| VeriSign, Inc. 1350 Charleston Road Mountain View, CA 94043 Attn: Chris Babel | 2,515,973 |
| Mercury Interactive Ventures, L.P. 1325 Borregas Avenue Sunnyvale, CA 94089 Attn: Susan J. Skaer, Esq. | 4,969,669 |
| Banque Bruxelles Lambert (Suisse) | 82,828 |
| TOTAL: | 48,079,860 |

LIST OF SHARES OF COMMON STOCK HELD BY FOUNDER

| <u>Founder</u> | <u>Number of Shares of Common Stock</u> |
|------------------|-----------------------------------------|
| Philippe Courtot | 10,187,830 |
| TOTAL: | 10,187,830 |

LIST OF SERIES B INVESTORS

| <u>INVESTOR</u> | <u>NUMBER OF SERIES B SHARES</u> |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| ABS Ventures, VI, L.L.C. 225 Franklin Street, 25 th Floor Boston, MA 02110 Attn: Bruns Grayson | 2,492,308 |
| Philippe F. Courtot 757 Tennyson Avenue Palo Alto, CA 94304 | 45,694,437 |
| GRP II, L.P. 2121 Avenue of the Stars Suite 1630 Los Angeles, CA 90067 Attn: Yves Sisteron | 13,692,308 |
| GRP II Partners, L.P. 2121 Avenue of the Stars Suite 1630 Los Angeles, CA 90067 Attn: Yves Sisteron | 461,538 |
| GRP II Investors, L.P. 2121 Avenue of the Stars Suite 1630 Los Angeles, CA 90067 Attn: Yves Sisteron | 1,230,769 |
| Trident Capital Fund V, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 37,438,454 |
| Trident Capital Fund-V Affiliates Fund, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 217,592 |

INVESTOR**NUMBER OF SERIES B SHARES**

| | |
|---------------------------------------------------------------------------------------------------------------------------------|-----------|
| Trident Capital Fund-V Affiliates Fund (Q), L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 207,636 |
| Trident Capital Fund-V Principals Fund, L.P. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 1,083,607 |
| Trident Capital Parallel Fund-V, C.V. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 2,844,326 |
| Trident Capital, Inc. 505 Hamilton Avenue, Suite 200 Palo Alto, CA 94301 Attn: Donald Dixon | 101,796 |
| WS Investments, LLC (2003A) 650 Page Mill Road Palo Alto, CA 94304 | 76,923 |
| WS Investments, LLC (2003D) 650 Page Mill Road Palo Alto, CA 94304 | 57,693 |
| ING Bank (Suisse) SA 30, av. De Frontenex Case postale 6405 CH – 1211 Geneve 6 Switzerland Attn: Stefano Aita | 24,150 |
| Jin Byun 111 Chestnut, #613 San Francisco, CA 94111 | 79,180 |
| Mai Courtot 47 Quai des Grands Augustins 75006 Paris (France) | 335,806 |
| Anne Dautun c/o Luckysurf.com 395 Oyster Point Boulevard, #110 South San Francisco, CA 94080 | 945,453 |

| <u>INVESTOR</u> | <u>NUMBER OF SERIES B SHARES</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|
| Nadia Deeba | 203,511 |
| Gerhard Eschelbeck | 107,755 |
| First TZMM Investment Partnership c/o Tomlinson Zisko LLP 200 Page Mill Road Palo Alto, CA 94306 Attn: Timothy Tomlinson | 123,077 |
| The Franchise Association | 101,755 |
| GC&H Investments | 297,941 |
| GC&H Investments, LLC | 315,868 |
| Ghattas Khoury | 121,185 |
| Samar Jabbour Khoury | 121,185 |
| Timothy J. Moore | 117,978 |
| Christina Morgan | 160,761 |
| Saltzman Revocable Trust 1251 Valparaiso Ave. Menlo Park, CA 94025 | 393,259 |
| Eric Todd Saltzman Charles Schwab & Co, Inc. Custodian, IRA Rollover | 106,500 |
| Jeffrey D. and Vivian E. Saper Trust | 73,736 |
| Howard Schmidt 26638 SE 146 th St. Issaquah, WA 98027 | 90,384 |
| Sharam I. And Fariba J. Sasson, Trustees of the Sasson Family Trust U/D/T dated December 29, 1994 3049 Oakraider Drive Alamo, CA 94507 | 395,900 |

INVESTOR

Arnold Schaeffer
2929 1st Avenue
Apt 1302
Seattle, WA 98121

Vincent Tobkin
WS Investment Company, LLC

TOTAL:

NUMBER OF SERIES B SHARES

133,750

202,043

196,629

110,314,114

LIST OF SERIES C INVESTORS

| <u>INVESTOR</u> | <u>NUMBER OF SERIES C SHARES</u> |
|--------------------------------------------------|----------------------------------|
| GRP II, L.P. | 8,644,225 |
| GRP II Partners, L.P. | 291,378 |
| GRP II Investors, L.P. | 777,009 |
| Trident Capital Fund-V, L.P. | 2,383,812 |
| Trident Capital Fund-V Affiliates Fund, L.P. | 13,855 |
| Trident Capital Fund-V Affiliates Fund (Q), L.P. | 13,221 |
| Trident Capital Fund-V Principals Fund, L.P. | 68,996 |
| Trident Capital Parallel Fund-V. C.V. | 181,106 |
| Philippe Courtot | 4,656,732 |
| ING Bank (Suisse) S.A. | 266,099 |

Total:

17,296,433

LIST OF SERIES C WARRANT HOLDERS

WARRANT HOLDER
Trident Capital Entities

NUMBER OF SERIES C SHARES
—

Main Courtot

—

QUALYS, INC.

2000 EQUITY INCENTIVE PLAN, AS AMENDED

Adopted February 9, 2000

Amended to Extend Term: January 29, 2010

Termination Date: January 28, 2020

1. PURPOSES.

(a) **Eligible Stock Award Recipients.** The persons eligible to receive Stock Awards are the Employees, Directors and Consultants of the Company and its Affiliates.

(b) **Available Stock Awards.** The purpose of the Plan is to provide a means by which eligible recipients of Stock Awards may be given an opportunity to benefit from increases in value of the Common Stock through the granting of the following Stock Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) stock bonuses and (iv) rights to acquire restricted stock.

(c) **General Purpose.** The Company, by means of the Plan, seeks to retain the services of the group of persons eligible to receive Stock Awards, to secure and retain the services of new members of this group and to provide incentives for such persons to exert maximum efforts for the success of the Company and its Affiliates.

2. DEFINITIONS.

(a) **"Affiliate"** means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f), respectively, of the Code.

(b) **"Board"** means the Board of Directors of the Company.

(c) **"Code"** means the Internal Revenue Code of 1986, as amended.

(d) **"Committee"** means a committee of one or more members of the Board appointed by the Board in accordance with subsection 3(c).

(e) **"Common Stock"** means the common stock of the Company.

(f) **"Company"** means Qualys, Inc., a Delaware corporation.

(g) **"Consultant"** means any person, including an advisor, (i) engaged by the Company or an Affiliate to render consulting or advisory services and who is compensated for such services or (ii) who is a member of the Board of Directors of an Affiliate. However, the term "Consultant" shall not include either Directors who are not compensated by the Company for their services as Directors or Directors who are merely paid a director's fee by the Company for their services as Directors.

(h) “Continuous Service” means that the Participant’s service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. The Participant’s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s Continuous Service. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or a Director will not constitute an interruption of Continuous Service. The Board or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(i) “Covered Employee” means the principal executive officer and the three (3) other highest compensated officers of the Company (other than the principal financial officer) for whom total compensation is required to be reported to stockholders under the Exchange Act, as determined for purposes of Section 162(m) of the Code, or such other interpretation given to such definition for purposes of Section 162(m) of the Code, as may be amended from time to time.

(j) “Director” means a member of the Board of Directors of the Company.

(k) “Disability” means (i) before the Listing Date, the inability of a person, in the opinion of a qualified physician acceptable to the Company, to perform the major duties of that person’s position with the Company or an Affiliate of the Company because of the sickness or injury of the person and (ii) after the Listing Date, the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code.

(l) “Employee” means any person employed by the Company or an Affiliate. Mere service as a Director or payment of a director’s fee by the Company or an Affiliate shall not be sufficient to constitute “employment” by the Company or an Affiliate.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(n) “Exchange Program” means a program under which (i) outstanding Stock Awards are surrendered or cancelled in exchange for Stock Awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Stock Awards to a financial institution or other person or entity selected by the Board, and/or (iii) the exercise price of an outstanding Stock Award is reduced or increased. The Board will determine the terms and conditions of any Exchange Program in its sole discretion.

(o) “Fair Market Value” means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, the Fair Market Value of a share of Common Stock shall be the closing sales

price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the last market trading day prior to the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable.

(ii) In the absence of such markets for the Common Stock, the Fair Market Value shall be determined in good faith by the Board.

(iii) Prior to the Listing Date, the value of the Common Stock shall be determined in a manner consistent with Section 260.140.50 of Title 10 of the California Code of Regulations.

(p) "**Incentive Stock Option**" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(q) "**Listing Date**" means the first date upon which any security of the Company is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system if such securities exchange or interdealer quotation system has been certified in accordance with the provisions of Section 25100(o) of the California Corporate Securities Law of 1968.

(r) "**Non-Employee Director**" means a Director who either (i) is not a current Employee or Officer of the Company or its parent or a subsidiary, does not receive compensation (directly or indirectly) from the Company or its parent or a subsidiary for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("Regulation S-K")), does not possess an interest in any other transaction as to which disclosure would be required under Item 404(a) of Regulation S-K and is not engaged in a business relationship as to which disclosure would be required under Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(s) "**Nonstatutory Stock Option**" means an Option not intended to qualify as an Incentive Stock Option.

(t) "**Officer**" means (i) before the Listing Date, any person designated by the Company as an officer and (ii) on and after the Listing Date, a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(u) "**Option**" means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

(v) "**Option Agreement**" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an individual Option grant. Each Option Agreement shall be subject to the terms and conditions of the Plan.

(w) **“Optionholder”** means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(x) **“Outside Director”** means a Director who either (i) is not a current employee of the Company or an “affiliated corporation” (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an “affiliated corporation” receiving compensation for prior services (other than benefits under a tax qualified pension plan), was not an officer of the Company or an “affiliated corporation” at any time and is not currently receiving direct or indirect remuneration from the Company or an “affiliated corporation” for services in any capacity other than as a Director or (ii) is otherwise considered an “outside director” for purposes of Section 162(m) of the Code.

(y) **“Participant”** means a person to whom a Stock Award is awarded pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(z) **“Plan”** means this Qualys, Inc. 2000 Equity Incentive Plan.

(aa) **“Rule 16b-3”** means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(bb) **“Securities Act”** means the Securities Act of 1933, as amended.

(cc) **“Stock Award”** means any right granted under the Plan, including an Option, a stock bonus and a right to acquire restricted Stock.

(dd) **“Stock Award Agreement”** means a written agreement between the Company and a holder of a Stock Award evidencing the terms and conditions of an individual Stock Award grant. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

(ee) **“Ten Percent Stockholder”** means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

(a) **Administration by Board.** The Board shall administer the Plan unless and until the Board delegates administration to a Committee, as provided in subsection 3(c). Any interpretation of the Plan by the Board and any decision by the Board under the Plan shall be final and binding on all persons.

(b) **Powers of Board.** The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted Stock Awards; when and how each Stock Award shall be granted; what type or combination of types of Stock Award shall be granted; the provisions of each Stock Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and the number of shares of Common Stock with respect to which Stock Award shall be granted to each such person.

(ii) To construe and interpret the Plan and Stock Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan or a Stock Award as provided in Section 12.

(iv) To institute and determine the terms and conditions of an Exchange Program.

(v) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company which are not in conflict with the provisions of the Plan.

(c) Delegation to Committee.

(i) General. The Board may delegate administration of the Plan to a Committee or Committees of one (1) or more members of the Board, and the term "Committee" shall apply to any person or persons to whom such authority has been delegated. If administration is delegated to a Committee, the Committee shall have, in connect with the administration of the Plan, the powers theretofore possessed by the Board, including the power to delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee or subcommittee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan.

(ii) Committee Composition when Common Stock is Publicly Traded. At such time as the Common Stock is publicly traded, in the discretion of the Board, a Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, and/or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3. Within the scope of such authority, the Board or the Committee may (1) delegate to a committee of one or more members of the Board who are not Outside Directors the authority to grant Stock Awards to eligible persons who are either (a) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Stock Award or (b) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code and/or (2) delegate to a committee of one or more members of the Board who are not Non-Employee Directors the authority to grant Stock Awards to eligible persons who are not then subject to Section 16 of the Exchange Act.

4. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve. Subject to the provisions of Section 11 relating to adjustments upon changes in Common Stock, the Common Stock that may be issued pursuant to Stock Awards shall not exceed in the aggregate one hundred ten million eight hundred seventy-eight thousand five hundred sixty-six (110,878,566) shares of Common Stock.

(b) Reversion of Shares to the Share Reserve. If any Stock Award shall for any reason expire or otherwise terminate, in whole or in part, without having been exercised in full, or is surrendered pursuant to an Exchange Program, the shares of Common Stock not acquired under such Stock Award shall revert to and again become available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 11, the maximum number of shares of Common Stock that may be issued upon the exercise of Incentive Stock Options will equal the aggregate shares of Common Stock stated in Section 4(a), plus, to the extent allowable under Code Section 422 and the Treasury Regulations promulgated thereunder, any shares of Common Stock that become available for issuance under the Plan pursuant to this Section 4(b).

(c) Source of Shares. The shares of Common Stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

5. ELIGIBILITY.

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to Employees. Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants.

(b) Ten Percent Stockholders. A Ten Percent Stockholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

(c) Section 162(m) Limitation. Subject to the provisions of Section 11 relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted Options covering more than five hundred thousand (500,000) shares of Common Stock during any calendar year. This subsection 5(c) shall not apply prior to the Listing Date and, following the Listing Date, this subsection 5(c) shall not apply until (i) the earliest of: (1) the first material modification of the Plan (including any increase in the number of shares of Common Stock reserved for issuance under the Plan in accordance with Section 4); (2) the issuance of all of the shares of Common Stock reserved for issuance under the Plan; (3) the expiration of the Plan; or (4) the first meeting of stockholders at which Directors are to be elected that occurs after the close of the third calendar year following the calendar year in which occurred the first registration of an equity security under Section 12 of the Exchange Act; or (ii) such other date required by Section 162(m) of the Code and the rules and regulations promulgated thereunder.

(d) Consultants.

(i) Prior to the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, either the offer or the sale of the Company's securities to such Consultant is not exempt under Rule 701 of the Securities Act ("Rule 701") because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a

natural person, or as otherwise provided by Rule 701, unless the Company determines that such grant need not comply with the requirements of Rule 701 and will satisfy another exemption under the Securities Act as well as comply with the securities laws of all other relevant jurisdictions.

(ii) From and after the Listing Date, a Consultant shall not be eligible for the grant of a Stock Award if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ("Form S-8") is not available to register either the offer or the sale of the Company's securities to such Consultant because of the nature of the services that the Consultant is providing to the Company, or because the Consultant is not a natural person, or as otherwise provided by the rules governing the use of Form S-8, unless, the Company determines both (i) that such grant (A) shall be registered in another manner under the Securities Act (e.g., on a Form S-3 Registration Statement) or (B) does not require registration under the Securities Act in order to comply with the requirements of the Securities Act, if applicable, and (ii) that such grant complies with the securities laws of all other relevant jurisdictions.

(iii) As of April 7, 1999 Rule 701 and Form S-8 generally are available to consultants and advisors only if (i) they are natural persons; (ii) they provide bona fide services to the issuer, its parents, its majority-owned subsidiaries or majority-owned subsidiaries of the issuer's parent; and (iii) the services are not in connection with the offer or sale of securities in a capital-raising transaction, and do not directly or indirectly promote or maintain a market for the issuer's securities.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) Term. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, no Option granted prior to the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted, and no Incentive Stock Option granted on or after the Listing Date shall be exercisable after the expiration of ten (10) years from the date it was granted.

(b) Exercise Price of an Incentive Stock Option. Subject to the provisions of subsection 5(b) regarding Ten Percent Stockholders, the exercise price of each Incentive Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option on the date the Option is granted. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(c) Exercise Price of a Nonstatutory Stock Option. The exercise price of each Nonstatutory Stock Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the option on the date the Option is granted. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

(d) Consideration. The purchase price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (i) in cash at the time the Option is exercised or (ii) at the discretion of the Board at the time of the grant of the Option (or subsequently in the case of a Nonstatutory Stock Option) (1) by delivery to the Company of other Common Stock, (2) according to a deferred payment or other similar arrangement with the Optionholder or (3) in any other form of legal consideration that may be acceptable to the Board; provided, however, that at any time that the Company is incorporated in Delaware, payment of the Common Stock's "par value" as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

In the case of any deferred payment arrangement, interest shall be compounded at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(e) Transferability of an Incentive Stock Option. An Incentive Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(f) Transferability of a Nonstatutory Stock Option. A Nonstatutory Stock Option granted prior to the Listing Date shall not be transferable except by will or by the laws of descent and distribution and, to the extent provided in the Option Agreement, to such further extent as permitted by Rule 701 of the Securities Act, and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. A Nonstatutory Stock Option granted on or after the Listing Date shall be transferable to the extent provided in the Option Agreement. If the Nonstatutory Stock Option does not provide for transferability, then the Nonstatutory Stock Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(g) Vesting Generally. The total number of shares of Common Stock subject to an Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or

times when it may be exercised (which may be based on performance or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options may vary. The provisions of this subsection 6(g) are subject to any Option provisions governing the minimum number of shares of Common Stock as to which an Option may be exercised.

(h) Termination of Continuous Service. In the event an Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (i) the date three (3) months following the termination of the Optionholder's Continuous Service (or such longer or shorter period specified in the Option Agreement, which period shall not be less than thirty (30) days for Options granted prior to the Listing Date unless such termination is for cause), or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Option Agreement, the Option shall terminate.

(i) Extension of Termination Date. An Optionholder's Option Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service (other than upon the Optionholder's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option shall terminate on the earlier of (i) the expiration of the term of the Option set forth in subsection 6(a) or (ii) the expiration of a period of three (3) months after the termination of the Optionholder's Continuous Service during which the exercise of the Option would not be in violation of such registration requirements.

(j) Disability of Optionholder. In the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (ii) the expiration of the term of the Option as set forth in the Option Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein, the Option shall terminate.

(k) Death of Optionholder. In the event (i) an Optionholder's Continuous Service terminates as a result of the Optionholder's death or (ii) the Optionholder dies within the period (if any) specified in the Option Agreement after the termination of the Optionholder's Continuous Service for a reason other than death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the option upon the Optionholder's death pursuant to subsection 6(e) or 6(f), but only within the period ending on the earlier of (1) the date eighteen (18) months following the date of death (or such longer or shorter period specified in the Option Agreement, which period shall not be less than six (6) months for Options granted prior to the Listing Date) or (2) the expiration of the term of such Option as set forth in the Option Agreement. If, after death, the Option is not exercised within the time specified herein, the Option shall terminate.

(l) Early Exercise. The Option may, but need not, include a provision whereby the Optionholder may elect at any time before the Optionholder's Continuous Service terminates to exercise the Option as to any part or all of the shares of Common Stock subject to the Option prior to the full vesting of the Option. Subject to the "Repurchase Limitation" in subsection 10(h), any unvested shares of Common Stock so purchased may be subject to a repurchase option in favor of the Company or to any other restriction the Board determines to be appropriate.

(m) Right of Repurchase. Subject to the "Repurchase Limitation" in subsection 10(h), the Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to repurchase all or any part of the vested shares of Common Stock acquired by the Optionholder pursuant to the exercise of the Option.

(n) Right of First Refusal. The Option may, but need not, include a provision whereby the Company may elect, prior to the Listing Date, to exercise a right of first refusal following receipt of notice from the Optionholder of the intent to transfer all or any part of the shares of Common Stock received upon the exercise of the Option. Except as expressly provided in this subsection 6(n), such right of first refusal shall otherwise comply with any applicable provisions of the Bylaws of the Company.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS.

(a) Stock Bonus Awards. Each stock bonus agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of stock bonus agreements may change from time to time, and the terms and conditions of separate stock bonus agreements need not be identical, but each stock bonus agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. A stock bonus may be awarded in consideration for past services actually rendered to the Company or an Affiliate for its benefit.

(ii) Vesting. Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock awarded under the stock bonus agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iii) Termination of Participant's Continuous Service. Subject to the "Repurchase Limitation" in subsection 10(h), in the event a Participant's Continuous Service terminates, the Company may reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the stock bonus agreement.

(iv) Transferability. For a stock bonus award made before the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall not be transferable

except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a stock bonus award made on or after the Listing Date, rights to acquire shares of Common Stock under the stock bonus agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the stock bonus agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the stock bonus agreement remains subject to the terms of the stock bonus agreement.

(b) Restricted Stock Awards. Each restricted stock purchase agreement shall be in such form and shall contain such terms and conditions as the Board shall deem appropriate. The terms and conditions of the restricted stock purchase agreements may change from time to time, and the terms and conditions of separate restricted stock purchase agreements need not be identical, but each restricted stock purchase agreement shall include (through incorporation of provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions.

(i) Purchase Price. The purchase price under each restricted stock purchase agreement shall be such amount as the Board shall determine and designate in such restricted stock purchase agreement.

(ii) Consideration. The purchase price of Common Stock acquired pursuant to the restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Board, according to a deferred payment or other similar arrangement with the Participant; or (iii) in any other form of legal consideration that may be acceptable to the Board in its discretion; provided, however, that at any time that the Company is incorporated in Delaware, then payment of the Common Stock's "par value," as defined in the Delaware General Corporation Law, shall not be made by deferred payment.

(iii) Vesting. Subject to the "Repurchase Limitation" in subsection 10(h), shares of Common Stock acquired under the restricted stock purchase agreement may, but need not, be subject to a share repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Board.

(iv) Termination of Participant's Continuous Service. Subject to the "Repurchase Limitation" in subsection 10(h), in the event a Participant's Continuous Service terminates, the Company may repurchase or otherwise reacquire any or all of the shares of Common Stock held by the Participant which have not vested as of the date of termination under the terms of the restricted stock purchase agreement.

(v) Transferability. For a restricted stock award made before the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Participant only by the Participant. For a restricted stock award made on or after the Listing Date, rights to acquire shares of Common Stock under the restricted stock purchase agreement shall be transferable by the Participant only upon such terms and conditions as are set forth in the restricted stock purchase agreement, as the Board shall determine in its discretion, so long as Common Stock awarded under the restricted stock purchase agreement remains subject to the terms of the restricted stock purchase agreement.

8. COVENANTS OF THE COMPANY.

(a) Availability of Shares. During the terms of the Stock Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Stock Awards.

(b) Securities Law Compliance. The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained.

9. USE OF PROCEEDS FROM STOCK.

Proceeds from the sale of Common Stock pursuant to Stock Awards shall constitute general funds of the Company.

10. MISCELLANEOUS.

(a) Acceleration of Exercisability and Vesting. The Board shall have the power to accelerate the time at which a Stock Award may first be exercised or the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Stock Award stating the time at which it may first be exercised or the time during which it will vest.

(b) Stockholder Rights. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Stock Award unless and until such Participant has satisfied all requirements for exercise of the Stock Award pursuant to its terms.

(c) No Employment or other Service Rights. Nothing in the Plan or any instrument executed or Stock Award granted pursuant thereto shall confer upon any Participant any right continue to serve the Company or an Affiliate in the capacity in effect at the time the Stock Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate or (iii) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case maybe.

(d) Incentive Stock Option \$100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which incentive

Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

(e) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Stock Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Stock Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Stock Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (iii) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act or (iv) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(f) Withholding Obligations. To the extent provided by the terms of a Stock Award Agreement, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under a Stock Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Stock Award; or (iii) delivering to the Company owned and unencumbered shares of Common Stock.

(g) Information Obligation. Prior to the Listing Date, to the extent required by Section 260.140.46 of Title 10 of the California Code of Regulations, the Company shall deliver financial statements to Participants at least annually. This subsection 10(g) shall not apply to key Employees whose duties in connection with the Company assure them access to equivalent information.

(h) Repurchase Limitation. The terms of any repurchase option shall be specified in the Stock Award and may be either at Fair Market Value at the time of repurchase or at not less than the original purchase price. To the extent required by Section 260.140.41 and Section 260.140.42 of Title 10 of the California Code of Regulations at the time a Stock Award is made, any repurchase option contained in a Stock Award granted prior to the Listing Date to a person who is not an Officer, Director or Consultant shall be upon the terms described below.

(i) Fair Market Value. If the repurchase option gives the Company the right to repurchase the shares of Common Stock upon termination of employment at not less than the Fair Market Value of the shares of Common Stock to be purchased on the date of termination of Continuous Service, then (i) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares of Common Stock within ninety (90) days of termination of Continuous Service (or in the case of shares of Common Stock issued upon exercise of Stock Awards after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding “qualified small business stock”) and (ii) the right terminates when the shares of Common Stock become publicly traded.

(ii) Original Purchase Price. If the repurchase option gives the Company the right to repurchase the shares of Common Stock upon termination of Continuous Service at the original purchase price, then (i) the right to repurchase at the original purchase price shall lapse at a rate determined by the Board from the date the Stock Award is granted (without respect to the date the Stock Award was exercised or became exercisable) and (ii) the right to repurchase shall be exercised for cash or cancellation of purchase money indebtedness for the shares of Common Stock within ninety (90) days of termination of Continuous Service (or in the case of shares of Common Stock issued upon exercise of Options after such date of termination, within ninety (90) days after the date of the exercise) or such longer period as may be agreed to by the Company and the Participant (for example, for purposes of satisfying the requirements of Section 1202(c)(3) of the Code regarding “qualified small business stock”).

11. ADJUSTMENTS UPON CHANGES IN STOCK.

(a) Capitalization Adjustments. If any change is made in the Common Stock subject to the Plan, or subject to any Stock Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), the Plan will be appropriately adjusted in the class(es) and maximum number of securities subject to the Plan pursuant to subsection 4(a) and the maximum number of securities subject to award to any person pursuant to Subsection 5(c), and the outstanding Stock Awards will be appropriately adjusted in the class(es) and number of securities and price per share of Common Stock subject to such outstanding Stock Awards. The Board shall make such adjustments, and its determination shall be final, binding and conclusive. (The conversion of any convertible securities of the Company shall not be treated as a transaction “without receipt of consideration” by the Company.)

(b) Change in Control—Dissolution or Liquidation. In the event of a dissolution or liquidation of the Company, then all outstanding Stock Awards shall terminate immediately prior to such event.

(c) Change in Control—Asset Sale, Merger, Consolidation or Reverse Merger. In the event of (i) a sale, lease or other disposition of all or substantially all of the assets of the

Company, (ii) a consolidation or merger of the Company with or into any other corporation or other entity or person, or any other corporate reorganization, in which the shareholders of the Company immediately prior to such consolidation, merger or reorganization, own less than 50% of the Company's outstanding voting power of the surviving entity (or its parent) following the consolidation, merger or reorganization or (iii) any transaction (or series of related transactions involving a person or entity, or a group of affiliated persons or entities) in which in excess of fifty percent (50%) of the Company's outstanding voting power is transferred, then any surviving corporation or acquiring corporation shall assume or continue any Stock Awards notwithstanding under the Plan or shall substitute similar stock awards (including an award to acquire the same consideration paid to the shareholders in the transaction described in this subsection 11(c)) for those outstanding under the plan. In the event any surviving corporation or acquiring corporation refuses to assume or continue such Stock Awards or to substitute similar stock awards for those outstanding under the Plan, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full, and the Stock Awards shall terminate if not exercised (if applicable) at or prior by a time established by the Board at or following the occurrence of such event. With respect to any other Stock Awards outstanding under the Plan, such Stock Awards shall terminate if not exercised (if applicable) at or prior to such event.

(d) Change in Control—Securities Acquisition. After the Listing Date, in the event of an acquisition by any person, entity or group within the meaning of Section 13(d) or 14(d) of the Exchange Act, or any comparable successor provisions (excluding any employee benefit plan, or related trust, sponsored or maintained by the Company or an Affiliate) of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act, or comparable successor rule) of securities of the Company representing at least fifty percent (50%) of the combined voting power entitled to vote in the election of Directors, then with respect to Stock Awards held by Participants whose Continuous Service has not terminated, the vesting of such Stock Awards (and, if applicable, the time during which such Stock Awards may be exercised) shall be accelerated in full.

12. AMENDMENT OF THE PLAN AND STOCK AWARDS.

(a) Amendment of Plan. The Board at any time, and from time to time, may amend the plan. However, except as provided in Section 11 relating to adjustments upon changes in Common Stock, no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 or any Nasdaq or securities exchange listing requirements.

(b) Stockholder Approval. The Board may, in its sole discretion, submit any other amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

(c) Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock options granted under it into compliance therewith.

(d) No Impairment of Rights. Rights under any Stock Award granted before amendment of the Plan shall not be impaired by any amendment Of the Plan unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

(e) Amendment of Stock Awards. The Board at any time, and from time to time, may amend the terms of any one or more Stock Awards; provided, however, that the rights, under any Stock Award shall not be impaired by any such amendment unless (i) the Company requests the consent of the Participant and (ii) the Participant consents in writing.

13. TERMINATION OR SUSPENSION OF THE PLAN.

(a) Plan Term. The Board may suspend or terminate the Plan at any time. The Plan became effective on February 9, 2000, the date on which the Board first adopted the Plan. Unless sooner terminated, the Plan shall continue in effect until January 28, 2020. No Stock Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan shall not impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the Participant.

14. EFFECTIVE DATE OF PLAN.

The Plan shall become effective as determined by the Board, but no Stock Award shall be exercised (or, in the case of a stock bonus, shall be granted) unless and until the Plan has been approved by the stockholders of the Company, which approval shall be within twelve (12) months before or after the date the Plan is adopted by the Board.

15. CHOICE OF LAW.

The law of the State of California shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of laws rules.

QUALYS, INC.
2000 EQUITY INCENTIVE PLAN, AS AMENDED

STOCK OPTION AGREEMENT
(INCENTIVE AND NONSTATUTORY STOCK OPTIONS)

Pursuant to your Stock Option Grant Notice (“Grant Notice”) and this Stock Option Agreement, **QUALYS, INC.** (the “Company”) has granted you an option under its **2000 EQUITY INCENTIVE PLAN, AS AMENDED** (the “Plan”) to purchase the number of shares of the Company’s Common Stock indicated in your Grant Notice at the exercise price indicated in your Grant Notice. Defined terms not explicitly defined in this Stock Option Agreement but defined in the Plan shall have the same definitions as in the Plan.

The details of your option are as follows:

1. VESTING. Subject to the limitations contained herein, your option will vest as provided in your Grant Notice, provided that vesting will cease upon the termination of your Continuous Service.

2. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of Common Stock subject to your option and your exercise price per share referenced in your Grant Notice may be adjusted from time to time for Capitalization Adjustments, as provided in the Plan.

3. EXERCISE PRIOR TO VESTING (“EARLY EXERCISE”). If permitted in your Grant Notice (i.e., the “Exercise Schedule” indicates that “Early Exercise” of your option is permitted) and subject to the provisions of your option, you may elect at any time that is both (i) during the period of your Continuous Service and (ii) during the term of your option, to exercise all or part of your option, including the nonvested portion of your option; provided, however, that:

(a) a partial exercise of your option shall be deemed to cover first vested shares of Common Stock and then the earliest vesting installment of unvested shares of Common Stock;

(b) any shares of Common Stock so purchased from installments that have not vested as of the date of exercise shall be subject to the purchase option in favor of the Company as described in the Company’s form of Early Exercise Stock Purchase Agreement to be provided;

(c) you shall enter into the Company’s form of Early Exercise Stock Purchase Agreement with a vesting schedule that will result in the same vesting as if no early exercise had occurred; and

(d) if your option is an incentive stock option, then, as provided in the Plan, to the extent that the aggregate Fair Market Value (determined at the time of grant) of the shares of Common Stock with respect to which your option plus all other incentive stock options you hold are exercisable for the first time by you during any calendar year (under all plans of the Company and its Affiliates) exceeds one hundred thousand dollars (\$100,000), your option(s) or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as nonstatutory stock options.

4. **METHOD OF PAYMENT.** Payment of the exercise price is due in full upon exercise of all or any part of your option. You may elect to make payment of the exercise price in cash or by check or in any other manner *permitted by your Grant Notice*, which may include one or more of the following:

(a) In the Company's sole discretion at the time your option is exercised and provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in *The Wall Street Journal*, pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of Common Stock, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds.

(b) Provided that at the time of exercise the Common Stock is publicly traded and quoted regularly in *The Wall Street Journal*, by delivery of already-owned shares of Common Stock either that you have held for the period required to avoid a charge to the Company's reported earnings or that you did not acquire, directly or indirectly from the Company, that are owned free and clear of any liens, claims, encumbrances or security interests, and that are valued at Fair Market Value on the date of exercise. "Delivery" for these purposes, in the sole discretion of the Company at the time you exercise your option, shall include delivery to the Company of your attestation of ownership of such shares of Common Stock in a form approved by the Company. Notwithstanding the foregoing, you may not exercise your option by tender to the Company of Common Stock to the extent such tender would violate the provisions of any law, regulation or agreement restricting the redemption of the Company's stock.

5. **WHOLE SHARES.** You may exercise your option only for whole shares of Common Stock.

6. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise your option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your option must also comply with other applicable laws and regulations governing your option, and you may not exercise your option if the Company determines that such exercise would not be in material compliance with such laws and regulations.

7. **TERM.** The term of your option commences on the Date of Grant and expires upon the *earliest* of the following:

(a) three (3) months after the termination of your Continuous Service for any reason other than your Disability or death, provided that if during any part of such three- (3-) month period your option is not exercisable solely because of the condition set forth in the preceding paragraph relating to "Securities Law Compliance," your option shall not expire until the earlier of the Expiration Date or until it shall have been exercisable for an aggregate period of three (3) months after the termination of your Continuous Service;

(b) twelve (12) months after the termination of your Continuous Service due to your Disability;

(c) eighteen (18) months after your death if you die either during your Continuous Service or within three (3) months after your Continuous Service terminates;

(d) the Expiration Date indicated in your Grant Notice; or

(e) the tenth (10th) anniversary of the Date of Grant.

If your option is an incentive stock option, note that, to obtain the federal income tax advantages associated with an “incentive stock option,” the Code requires that at all times beginning on the date of grant of your option and ending on the day three (3) months before the date of your option’s exercise, you must be an employee of the Company or an Affiliate, except in the event of your death or Disability. The Company has provided for extended exercisability of your option under certain circumstances for your benefit but cannot guarantee that your option will necessarily be treated as an “incentive stock option” if you continue to provide services to the Company or an Affiliate as a Consultant or Director after your employment terminates or if you otherwise exercise your option more than three (3) months after the date your employment terminates.

8. EXERCISE.

(a) You may exercise the vested portion of your option (and the unvested portion of your option if your Grant Notice so permits) during its term by delivering a Notice of Exercise (in the form attached as Exhibit A) together with the exercise price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require.

(b) By exercising your option you agree that, as a condition to any exercise of your option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of your option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your option is an incentive stock option, by exercising your option you agree that you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your option that occurs within two (2) years after the date of your option grant or within one (1) year after such shares of Common Stock are transferred upon exercise of your option.

(d) By exercising your option you agree that the Company (or a representative of the underwriter(s)) may, in connection with the first underwritten registration of the offering of any securities of the Company under the Securities Act, require that you not sell, dispose of, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any shares of Common Stock or other securities of the Company held by you, for a period of time specified by the underwriter(s) (not to exceed one hundred eighty (180) days) following the effective date of the registration statement of the Company filed under the Securities Act. You further agree to execute and deliver such other agreements as may be reasonably requested by the Company and/or the underwriter(s) that are consistent with the foregoing or that are necessary to give further effect thereto. In order to enforce

the foregoing covenant, the Company may impose stop-transfer instructions with respect to your shares of Common Stock until the end of such period.

9. TRANSFERABILITY. Your option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you. Notwithstanding the foregoing, by delivering written notice to the Company, in a form satisfactory to the Company, you may designate a third party who, in the event of your death, shall thereafter be entitled to exercise your option.

10. RIGHT OF FIRST REFUSAL. Shares of Common Stock that you acquire upon exercise of your option are subject to any right of first refusal that may be described in the Company's bylaws in effect at such time the Company elects to exercise its right. The Company's right of first refusal shall expire on the Listing Date.

11. RIGHT OF REPURCHASE. To the extent provided in the Company's bylaws as amended from time to time, the Company shall have the right to repurchase all or any part of the shares of Common Stock you acquire pursuant to the exercise of your option.

12. OPTION NOT A SERVICE CONTRACT. Your option is not an employment or service contract, and nothing in your option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company or an Affiliate, or of the Company or an Affiliate to continue your employment. In addition, nothing in your option shall obligate the Company or an Affiliate, their respective shareholders, Boards of Directors, Officers or Employees to continue any relationship that you might have as a Director or Consultant for the Company or an Affiliate.

13. WITHHOLDING OBLIGATIONS.

(a) At the time you exercise your option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or an Affiliate, if any, which arise in connection with your option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable conditions or restrictions of law, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your option a number of whole shares of Common Stock having a Fair Market Value, determined by the Company as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law. If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of

Common Stock determined as of the date of exercise of your option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your option when desired even though your option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock from any escrow provided for herein.

14. CODE SECTION 409A. Under Code Section 409A, an option that vests after December 31, 2004 (or that vested on or prior to such date but which was materially modified after October 3, 2004) that was granted with a per share exercise price that is determined by the Internal Revenue Service (the "IRS") to be less than the Fair Market Value of a share of Common Stock on the date of grant (a "discount option") may be considered "deferred compensation." An option that is a "discount option" may result in (i) income recognition by you prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The "discount option" may also result in additional state income, penalty and interest tax to you. You acknowledge that the Company cannot and has not guaranteed that the IRS will agree that the per share exercise price of this option equals or exceeds the Fair Market Value of a share of Common Stock on the date of grant in a later examination. You agree that if the IRS determines that the option was granted with a per share exercise price that was less than the Fair Market Value of a share of Common Stock on the date of grant, you shall be solely responsible for the costs related to such a determination.

15. NOTICES. Any notices provided for in your option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

16. GOVERNING PLAN DOCUMENT. Your option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of your option and those of the Plan, the provisions of the Plan shall control.

17. ENTIRE AGREEMENT; GOVERNING LAW. The Plan and this Stock Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and you with respect to the subject matter hereof, and may not be modified adversely to your interest except by means of a writing signed by you and the Company. This Stock Option Agreement is governed by the internal substantive laws but not the choice of law rules of California.

EXHIBIT A
NOTICE OF EXERCISE

Qualys, Inc.
1600 Bridge Parkway
Redwood Shores, CA 94065

Date: _____

Ladies and Gentlemen:

This constitutes notice under my stock option that I elect to purchase the number of shares of Common Stock for the price set forth below.

Type of option: Incentive(ISO) Nonstatutory(NQ)

Stock option dated: _____

Number of shares of Common Stock as to which option is exercised: _____

Certificates to be issued in name of: _____

Individual Husband & Wife

Total exercise price: \$ _____

Cash payment delivered herewith: \$ _____

I (the "Purchaser") hereby make the following certifications and representations with respect to the number of shares of Common Stock of the Company listed above (the "Shares"), which are being acquired by me for my own account upon exercise of the Option as set forth above:

1. Delivery of Payment; Representations of Optionholder. By this exercise, I agree (i) to provide such additional documents as you may require pursuant to the terms of the 2000 Equity Incentive Plan, as amended, and (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any, relating to the exercise of this option. I acknowledge that I have received, read and understood the Plan and the Stock Option Agreement and agree to abide by and be bound by their terms and conditions.

2. Rights as Stockholder. Until the issuance of the shares of Common Stock (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Common Stock subject to my option, notwithstanding the exercise of my Option. The shares of Common Stock shall be issued to me as soon as practicable after the option is exercised in accordance with the Stock Option Agreement. No adjustment shall be made

for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 11 of the Plan.

3. Company's Right of First Refusal. Shares of Common Stock acquired upon the exercise of my option are subject to any right of first refusal that may be described in the Company's bylaws in effect at such time the Company elects to exercise its right. The Company's right of first refusal shall expire on the Listing Date.

4. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. I understand and agree that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the shares of Common Stock together with any other legends that may be required by the Company or by state or federal securities laws:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND A RIGHT OF FIRST REFUSAL HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN THE EXERCISE NOTICE BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS AND RIGHT OF FIRST REFUSAL ARE BINDING ON TRANSFEREES OF THESE SHARES.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER FOR A PERIOD OF TIME FOLLOWING THE EFFECTIVE DATE OF THE UNDERWRITTEN PUBLIC OFFERING OF THE COMPANY'S SECURITIES SET FORTH IN AN AGREEMENT BETWEEN THE ISSUER AND THE ORIGINAL HOLDER OF THESE SHARES AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF BY THE HOLDER PRIOR TO THE EXPIRATION OF SUCH PERIOD WITHOUT THE CONSENT OF THE COMPANY OR THE MANAGING UNDERWRITER.

(b) Stop-Transfer Notices. I agree that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any shares of Common Stock that have been sold or otherwise transferred in violation of any of the provisions of this Notice of Exercise or (ii) to treat as owner of such shares of Common Stock

or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such shares of Common Stock shall have been so transferred.

5. Investment Representations. In connection with the purchase of the Common Stock, Purchaser represents to the Company the following:

(a) Purchaser is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Common Stock. Purchaser is acquiring the Common Stock for investment for Purchaser's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act.

(b) Purchaser understands that the Common Stock constitutes "restricted securities" under the Securities Act and has not been registered under the Securities Act by reason of a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Purchaser's investment intent as expressed herein. In this connection, Purchaser understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Purchaser's representation was predicated solely upon a present intention to hold the Common Stock for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Common Stock, or for a period of one (1) year or any other fixed period in the future.

(c) Purchaser further acknowledges and understands that the Common Stock must be held indefinitely unless the Common Stock is subsequently registered under the Securities Act or an exemption from such registration is available. Purchaser further acknowledges and understands that the Company is under no obligation to register the Common Stock. Purchaser understands that the certificate evidencing the Common Stock will be imprinted with a legend that prohibits the transfer of the Common Stock unless the Common Stock is registered or such registration is not required in the opinion of counsel for the Company.

(d) Purchaser is familiar with the provisions of Rules 144 and 701, under the Securities Act, as in effect from time to time, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of grant of the Option to Purchaser, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the securities exempt under Rule 701 may be sold by Purchaser ninety (90) days thereafter (or such longer period as any market stand-off agreement may require), subject to the satisfaction of certain of the conditions specified by Rule 144, including in the case of affiliates (1) the availability of certain public information about the Company, (2) the amount of securities being sold during any three (3) month period not exceeding specified limitations, (3) the resale being made in an unsolicited "broker's transaction", transactions directly with a "market maker" or "riskless principal transactions" (as those terms are defined under the Securities Exchange Act of 1934) and (4) the timely filing of a Form 144, if applicable.

(e) In the event that the sale of the Common Stock does not qualify under Rule 701 at the time of grant of the Option, then the Common Stock may be resold by Purchaser in

certain limited circumstances subject to the provisions of Rule 144, which may require, among other things: (i) the availability of certain public information about the Company, (ii) the resale to occur more than a specified period after the purchase and full payment (within the meaning of Rule 144) for the Securities, and made full payment of (within the meaning of Rule 144), and (iii) in the case of the sale of Securities by an affiliate, the satisfaction of the conditions set forth in sections (2), (3) and (4) of the paragraph immediately above.

(f) Purchaser further understands that at the time Purchaser wishes to sell the Common Stock there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public current information requirements of Rule 144 or 701, and that, in such event, Purchaser would be precluded from selling the Common Stock under Rule 144 or 701 even if the minimum holding period requirement had been satisfied.

(g) Purchaser further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption shall be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 shall have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Purchaser understands that no assurances can be given that any such other registration exemption shall be available in such event.

6. Successors and Assigns. The Company may assign any of its rights under this Notice of Exercise to single or multiple assignees, and this Notice of Exercise shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Notice of Exercise shall be binding upon me and my heirs, executors, administrators, successors and assigns.

7. Interpretation. Any dispute regarding the interpretation of this Notice of Exercise shall be submitted by me or by the Company forthwith to the Board, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board shall be final and binding on all parties.

8. Governing Law; Severability. This Notice of Exercise is governed by the internal substantive laws, but not the choice of law rules, of California. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Notice of Exercise shall continue in full force and effect.

9. Entire Agreement. The Plan, Grant Notice and Stock Option Agreement are incorporated herein by reference. This Notice of Exercise, the Plan, Grant Notice, Stock Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and me with respect to the subject matter hereof, and may not be modified adversely to my interest except by means of a writing signed by the Company and me.

Submitted by:
OPTIONHOLDER

Accepted by:
QUALYS, INC.

Signature

By

Print Name

Print Name

Address:

Title

Address:

1600 Bridge Parkway

Redwood Shores, CA 94065

Date Received/Date of Exercise

December 7, 2000

Philippe F. Courtot
[Address]

Dear Philippe:

This letter reflects the agreement between you and Qualys, Inc. (the "Company" or "Qualys") for you to act as Chairman of the Board and as interim President and Chief Executive Officer of the Company. In this capacity, you will report directly to the Company's Board of Directors, and you have agreed to provide service to the Company at a rate of no less than 30 hours per week. You will be paid a monthly base salary of \$8,333.33 on a semi-monthly basis, less payroll deductions and required tax withholding.

Subject to the approval of the Company's Board of Directors, you shall be granted a stock option to purchase 698,573 shares of the Company's Common Stock pursuant to the terms of Qualys' 2000 Equity Incentive Plan based on your services in the capacity of Chairman of the Board, President and/or Chief Executive Officer. Your option will be subject to a four-year vesting schedule, with vesting commencing as of November 1, 2000. Under the vesting schedule, 2.0833% of shares subject to your option would vest for each full month of continuous services for the Company following November 1, 2000. The exercise price for your option will be set equal to the fair market value of Qualys' stock on the grant date. Notwithstanding the above, however, all of the shares subject to your option will vest automatically upon the consummation of a sale of all or substantially all of the assets of the Company or a merger of the Company with or into another corporation in which the stockholders of the Company immediately before the transaction do not own, directly or indirectly, a majority of the Company of the surviving entity immediately following the transaction. Also, if your employment with the Company is terminated by the Company without "Cause" (as defined below), all of the shares subject to your option will vest automatically as of the date of such termination.

For purposes of this Agreement, "Cause" shall mean (i) theft, dishonesty or falsification of any employment or Company records; (ii) malicious or reckless disclosure of the Company's confidential or proprietary information; (iii) commission of any immoral or illegal act or any gross or willful misconduct, where the Company reasonably determines that such act or misconduct has (A) seriously undermined the ability of the Company's management to entrust you with important matters or otherwise work effectively with you, (B) contributed to the Company's loss of significant revenues or business opportunities, or (C) significantly and detrimentally effected the business or reputation of the Company or any of its subsidiaries; and (iv) the failure or refusal by you to work diligently to perform tasks or achieve goals reasonably requested by the Board of Directors, provided such failure or refusal continues after the receipt of reasonable notice in writing of such failure or refusal and an opportunity to correct the problem. Cause shall not mean a physical or mental disability.

1.

Qualys also intends to offer you the following standard Company benefits: medical and dental insurance, a 401(k) plan, vacation, sick leave, and holidays (the "Company Benefits"). Details about these benefits are provided in the Employee Handbook and Summary Plan Descriptions, available for your review. The Company may modify compensation and benefits from time to time as it deems necessary.

Your employment relationship with the Company is at-will. You may terminate your employment with the Company at any time and for any reason whatsoever simply by notifying the Company. Likewise, the Company may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a duly authorized Company officer.

As a condition of employment, you will be expected to sign and comply with the Company's standard form of Proprietary Information and Inventions Agreement, which prohibits unauthorized use or disclosure of Qualys proprietary information. Additionally, this offer is subject to our receipt of satisfactory proof of your right to work in the United States.

This Agreement, together with the Proprietary Information and Inventions Agreement and the stock option and Qualys' 2000 Equity Incentive Plan documentation, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with respect to the terms and conditions of your employment specified herein. This Agreement may not be amended or modified except by a written instrument signed by you and a duly authorized officer of the Company.

If you are in agreement with the terms described above, please sign below and return this letter to the undersigned.

Sincerely,

QUALYS, INC.

Accepted and Agreed to by:

/s/ Philippe F. Courtot

Philippe F. Courtot



Amer Deeba
[Address]

Dear Amer:

I am pleased to offer you the position of VP of Marketing, reporting to Philippe Courtot, CEO. Your annual salary will be \$175,000 less payroll deductions and all required withholding. You will also participate in a bonus program earning up to 25% of your annual salary, depending on company performance.

You will be paid semi-monthly and you will be eligible for the following standard Company benefits as of the first of the month following date of hire: medical and dental insurance, a 401k plan, 3 weeks vacation, sick leave, company assigned holidays and other benefits described in the Summary Plan Descriptions, available for your review. QUALYS may modify compensation and benefits from time to time as it deems necessary.

It is our desire that you participate in the success and growth of the Company through equity. We will recommend to the Board of Directors that you be granted a stock option to purchase 700,000 shares of Common Stock under Qualys' 2000 Equity Incentive Plan. Your option will be subject to a four-year vesting schedule, with 175,000 shares vesting at your start date and 525,000 shares to commence vesting as of your start date as an employee under this agreement. Under the vesting schedule, your 525,000 shares under your initial option would vest at the rate of 25% upon completion of the first year of employment, with an additional 2.0833% of such shares vesting for each full month of continuous employment completed after the first anniversary. However, if Qualys sells all or substantially all of its assets or its stock, 50% of the then unvested stock options shall be vested immediately prior to the consummation of the sale of the company.

QUALYS will issue an interest bearing loan to you to acquire the shares issued by the grant mentioned above.

As a QUALYS employee, you will be expected to abide by Company rules and regulations, and sign and comply with the attached Proprietary Information and Inventions Agreement, which prohibits unauthorized use or disclosure of QUALYS' proprietary information.

In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. During our discussions about your proposed job duties, you assured us that you would be able to perform those duties within the guidelines just described.

QUALYS, Inc- 1326 Chesapeake Terrace, Sunnyvale, California 94089
Tel. (408) 747-6000 Fax: (408) 747-5255 <http://www.qualys.com>



You agree that you will not bring onto Company premises any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality.

Normal working hours are from 8:30 a.m. to 5:30 p.m., Monday through Friday. As an exempt salaried employee, you will be expected to work additional hours as required by the nature of your work assignments.

Your employment relationship with QUALYS is at-will. You may terminate your employment with QUALYS at any time and for any reason whatsoever simply by notifying QUALYS. Likewise, QUALYS may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Company officer.

This letter, together with your Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete and exclusive statement of your employment agreement with QUALYS. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. As required by law, this offer is subject to satisfactory proof of your right to work in the United States.

We look forward to your acceptance of employment with QUALYS under the terms described above. Please sign and date this letter, and return it to me by May 18, 2001.

Amer, we are excited about you joining our team. If you have any questions, please feel free to call me at (408)747-6002.

Sincerely,

/s/ Joel Lesser
Joel Lesser
Controller

CC: Philippe F. Courtot

I accept this offer:

/s/ Amer Deeba

Amer Deeba

Start Date: September 4, 2001

QUALYS, Inc- 1326 Chesapeake Terrace, Sunnyvale, California 94089
Tel. (408) 747-6000 Fax: (408) 747-5255 <http://www.qualys.com>



Securing Your Network

January 17, 2003

Sumedh Thakar
[Address]

Dear Sumedh:

On behalf of Qualys, Inc., I am pleased to offer you the position of Software Engineer, reporting to Gerhard Eschelbeck. Your location of work will be Redwood City, CA. The details of your offer are outlined below:

- Salary:** \$85,000* (**Annual Salary**) less payroll deductions and all required withholding.
*To be paid semi-monthly.
- Benefits:** You will be eligible for the following standard Company benefits as of the first of the month following date of hire: Medical and Dental Insurance, 401k plan, Flexible Spending, 3 weeks Vacation, Sick Leave, Company Assigned Holidays and other benefits described in the Summary Plan Descriptions, available for your review. QUALYS may modify compensation and benefits from time to time as it deems necessary.
- Stocks:** We will recommend to the Board of Directors that you be granted a stock option to purchase 30,000 shares of Common Stock under Qualys' 2000 Equity Incentive Plan. Your option will be subject to a four-year vesting schedule, with vesting to commence as of your start date as an employee under this agreement. Under the vesting schedule, your shares under your initial option would vest at the rate of 25% upon completion of the first year of employment, with an additional 2.0833% of such shares vesting for each full month of continuous employment completed after the first anniversary.
- Visa:** Qualys has agreed to sponsor and pay for the transfer of your H1-B Visa as needed. If your employment with Qualys terminates before completing one full year of service from the date of receipt of the visa, with the exception of a reduction in force, you will be fully responsible for the incurred costs associated with the transfer of the H1-B Visa.

As a QUALYS employee, you will be expected to abide by Company rules and regulations and sign and comply with the attached Proprietary Information and Inventions Agreement which prohibit unauthorized use or disclosure of QUALYS' proprietary information.

In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is

Qualys, Inc.
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generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. During our discussions about your proposed job duties, you assured us that you would be able to perform those duties within the guidelines just described. You agree that you will not bring onto Company premises any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality.

Your employment relationship with QUALYS is at-will. You may terminate your employment with QUALYS at any time and for any reason whatsoever simply by notifying QUALYS. Likewise, QUALYS may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Company officer.

This letter, together with your Employee Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete and exclusive statement of your employment agreement with QUALYS. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. It is also contingent upon providing evidence of your legal right to work in the United States as required by the Immigration and Naturalization Service.

We look forward to your acceptance of employment with QUALYS under the terms described above. To accept this offer, please sign and date this letter. Please return the original offer letter along with the Employee Proprietary Information and Inventions Agreement in the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on January 20, 2003 and is contingent upon successful reference checks.

Sumedh, we are excited about you joining our team and will schedule your orientation for 9am on your first day of employment. If you have any questions, please feel free to call me at (650) 801-6151.

Sincerely,

/s/ Rima J. Touma Bruno
Rima J. Touma Bruno
Director, Human Resources

Offer Accepted By:

Date Accepted:

Start Date:

/s/ Sumedh Thakar

1/20/2003

Sumedh Thakar

January , 2003



QUALYS™
SECURITY ON DEMAND

February 7, 2006

Donald McCauley
[Address]

Dear Don:

On behalf of Qualys, Inc., I am pleased to offer you the position of Chief Financial Officer reporting to Philippe Courtot, Chairman and CEO. Your location of work will be Redwood City, CA. The details of your offer are outlined below.

Salary: \$250,000* (*Annual Salary*) less payroll deductions and all required withholding.

* *To be paid semi-monthly*

Should you be terminated without cause, you will be entitled to severance equal to 6 months of base salary at your final rate of pay and 6 months COBRA coverage, provided you sign Qualys General Release of Claims.

Bonus: You will be eligible to participate in a bonus program earning up to 20% of your annual salary, depending on company performance.

Benefits: You will be eligible for the following standard Company benefits as of the first of the month following date of hire Medical and Dental Insurance, 401k plan, Flexible Spending, 4 weeks Vacation, Sick Leave, Company Assigned Holidays and other benefits described in the Summary Plan Descriptions, available for your review QUALYS may modify compensation and benefits from time to time as it deems necessary

Stocks: We will recommend to the Board of Directors that you be granted a stock option to purchase a number of shares equal to 1.125% of the fully diluted shares of Common Stock under Qualys' 2000 Equity Incentive Plan. Your options will be subject to adjustment to reflect stock splits and reverse stock splits and will be subject to a four-year vesting schedule, with vesting to commence as of your start date as an employee under this agreement. Under the vesting schedule, your shares under your initial option would vest at the rate of 2.0833% for each full month of continuous employment completed for the duration of 4 years. However, if Qualys sells all or substantially all of its assets or its stock, 100% of the then unvested stock options shall be vested. Also, if your employment is terminated without cause, 50% of the then unvested stock options shall be vested.

Qualys, Inc.

1600 Bridge Parkway, Redwood Shores, CA 94065

T 650 801 6100 F 650 801 6101 www.qualys.com

As a QUALYS employee, you will be expected to abide by Company rules and regulations, and sign and comply with the attached Proprietary Information and Inventions Agreement, which prohibit unauthorized use or disclosure of QUALYS' proprietary information.

Your employment relationship with QUALYS is at-will. You may terminate your employment with QUALYS at any time and for any reason whatsoever simply by notifying QUALYS. Likewise, QUALYS may terminate your employment at any time and for any reason whatsoever with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Company officer.

This letter, together with your Employee Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete and exclusive statement of your employment agreement with QUALYS. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. It is also contingent upon providing evidence of your legal right to work in the United States as required by the Immigration and Naturalization Service

We look forward to your acceptance of employment with QUALYS under the terms described above. To accept this offer, please sign and date this letter. Please return the original offer letter along with the Employee Proprietary Information and Inventions Agreement in the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on February 10th, 2006

Don, we are excited about you joining our team. If you have any questions, please feel free to call me at (650)801-6151.

Sincerely,

/s/ Rima Touma-Bruno
Rima Touma-Bruno
Director, Human Resources

Offer Accepted By:

Date Accepted:

Start Date:

/s/ Donald McCauley
Donald McCauley

2/7/2006

2/28/2006
February 28, 2006



QUALYS
ON DEMAND SECURITY

August 20, 2010

John Wilson
[Address]

Dear John:

On behalf of Qualys, Inc., I am pleased to offer you the position of EVP Worldwide Field Operations reporting to Philippe Courtot, Chairman and CEO. The details of your offer are outlined below:

- Salary:** \$200,000* (*Annual Salary*)
*To be paid semi-monthly. Less payroll deductions and all required withholding.
- Hiring Bonus:** \$25,000 (payable on the first pay period after your hire date)
Should you voluntarily terminate from Qualys, Inc. for any reason within one year of your hire date, you will be required to repay Qualys, Inc. the hiring bonus.
- Commission:** You will be eligible to receive up to \$43,750 per quarter. The terms of the commission will be determined soon after you begin employment. The commission for the first quarter of employment will be guaranteed.
- Benefits:** You will be eligible for the following standard Company benefits as of the first of the month following date of hire: Medical and Dental Insurance 401k plan Flexible Spending, 4 weeks Vacation, Sick Leave. Company Assigned Holidays and other benefits described in the Summary Plan available for your review. Qualys may modify compensation and benefits from time to time as it deems necessary.
- Stock:** We will recommend to the Board of Directors that you be granted a stock option to purchase 0.65% fully diluted shares of Common Stock under Qualys 2000 Equity Incentive Plan. Your option will be subject to a three- year vesting schedule, with vesting to commence as of your start date as an employee under this agreement. Under the vesting schedule your shares under your initial option would vest at the rate of 2.7778% of such shares vesting for each full month of continuous employment completed. However 50% of the then unvested stock options shall be vested if Qualys sells all or substantially all of its assets or its stock.

As a Qualys employee, you will be expected to abide by Company rules and regulations, and sign and comply with the attached Proprietary Information and Inventions Agreement, which prohibits unauthorized use or disclosure of Qualys' proprietary information.

Your employment relationship with Qualys is at-will. You may terminate your employment with Qualys at any time and for any reason whatsoever simply by notifying Qualys. Likewise, Qualys may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Company officer.

Qualys, Inc.
1600 Bridge Parkway, Redwood Shores, CA 94065
T 650 801 6100 F 650 801 6101 www.qualys.com

This letter, together with your Employee Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete and exclusive statement of your employment agreement with Qualys. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. Your employment is contingent upon providing evidence of your legal right to work in the United States as required by the Immigration and Naturalization Service.

We look forward to your acceptance of employment with Qualys under the terms described above. To accept this offer, please sign and date this letter. Please return the original offer letter along with the Employee Proprietary Information and Inventions Agreement in the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on Wednesday, August 25, 2010 and is contingent upon successful reference checks and a satisfactory background check.

John, we are excited about you joining our team. If you have any questions, please feel free to call me at (650) 801-6151.

Sincerely,

/s/ Rima Touma Bruno
Rima Touma Bruno
VP, Human Resources

Offer Accepted By:

/s/ John Wilson

John Wilson

Date Accepted:

8/25/10

Start Date:

TBD

no later than January 4, 2011



April 14, 2011

Peter Albert

Dear Peter:

On behalf of Qualys, Inc., I am pleased to offer you the position of VP of Operations reporting to Philippe Courtot, President and CEO. The details of your offer are outlined below:

- Salary:** \$200,000* (Annual Salary)
*To be paid semi-monthly. Less payroll deductions and all required withholding.
- Bonus:** You will be eligible to participate in a bonus program earning up to 30% of your annual salary, depending on Qualys performance.
- Benefits:** You will be eligible for the following standard Qualys benefits as of the first of the month following date of hire: Medical and Dental Insurance, 401k plan, Flexible Spending, 4 weeks Vacation, Sick Leave, Qualys Assigned Holidays and other benefits described in the Summary Plan Descriptions, available for your review. Qualys may modify compensation and benefits from time to time as it deems necessary.
- Stocks:** We will recommend to the Board of Directors that you be granted a stock option to purchase a number of shares equal to 0.5% of fully diluted shares of Common Stock under Qualys' 2000 Equity Incentive Plan available as of the board meeting date. Your option will be subject to a four-year vesting schedule, with vesting to commence as of your start date as an employee under this agreement. Under the vesting schedule, your shares under your initial option would vest at the rate of 2.0833% of such shares vesting for each full month of continuous employment completed. However, 50% of the then unvested stock options shall be vested (i) if Qualys sells all or substantially all of its assets or its stock and (ii) if your employment is terminated without cause within 12 months of such event or in the event of a constructive discharge within such 12 months period.

As a Qualys employee, you will be expected to abide by Qualys rules and regulations, and sign and comply with the attached Proprietary Information and Inventions Agreement, which prohibits unauthorized use or disclosure of Qualys' proprietary information.

Your employment relationship with Qualys is at-will. You may terminate your employment with Qualys at any time and for any reason whatsoever simply by notifying Qualys. Likewise, Qualys may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Qualys officer.

This letter, together with your Employee Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete

Qualys, Inc.

1600 Bridge Parkway, Redwood Shores, CA 94065

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and exclusive statement of your employment agreement with Qualys. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. Your employment is contingent upon providing evidence of your legal right to work in the United States as required by the Immigration and Naturalization Service.

We look forward to your acceptance of employment with Qualys under the terms described above. To accept this offer, please sign and date this letter. Please return the original offer letter along with the Employee Proprietary Information and Inventions Agreement in the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on Thursday, April 14, 2011 and is contingent upon successful reference checks and a satisfactory background check.

Peter, we are excited about you joining our team. If you have any questions, please feel free to call me at (650) 801-6151.

Sincerely,

/s/ Rima Touma Bruno
Rima Touma Bruno
VP, Human Resources

Offer Accepted By:

Date Accepted:

Start Date:

/s/ Peter Albert

Peter Albert

4-14-2011

April 14, 2011



QUALYS
ON DEMAND SECURITY

May 7, 2012

Bruce K. Posey
[Address]

Dear Bruce:

On behalf of Qualys, Inc., I am pleased to offer you the position of Vice President and General Counsel, reporting to Don McCauley, CFO. Your location of work will be Redwood City, California. The details of your offer are outlined below:

Salary: \$250,000* (Annual Salary)

* To be paid semi-monthly. Less payroll deductions and all required withholding.

Bonus: You will be eligible to participate in a bonus program earning up to 30% of your annual salary, depending on Qualys performance.

Benefits: You will be eligible for the following standard Qualys benefits as of the first of the month following date of hire: Medical and Dental Insurance, 401k plan, Flexible Spending, 4 weeks Vacation, Sick Leave, Qualys Assigned Holidays and other benefits described in the Summary Plan Descriptions, available for your review. Qualys may modify compensation and benefits from time to time as it deems necessary.

Stocks: We will recommend to the Board of Directors that you be granted a stock option to purchase 0.5% of fully diluted shares of Common Stock under Qualys' 2000 Equity Incentive Plan. Your stocks will be subject to a four-year vesting schedule, with vesting to commence as of your start date as an employee under this agreement. Under the vesting schedule, your shares would vest at the rate of 2.0833% of such shares vesting for each full month of continuous employment completed after the first anniversary. However, 75% of the then unvested stock options shall be vested if Qualys sells all or substantially all of its assets or its stock.

As a Qualys employee, you will be expected to abide by Qualys rules and regulations, and sign and comply with the attached Proprietary information and inventions Agreement, which prohibits unauthorized use or disclosure or Qualys' proprietary information.

Your employment relationship with Qualys is at-will. You may terminate your employment with Qualys at any time and for any reason whatsoever simply by notifying Qualys. Likewise, Qualys may terminate your employment at any time and for any reason whatsoever, with or without cause or advance notice. This at-will employment relationship cannot be changed except in a writing signed by a Qualys officer.

This letter, together with your Employee Proprietary Information and Inventions Agreement and the option agreement between you and Qualys (relating to your option grant described above), forms the complete and exclusive statement of your employment agreement with Qualys. The employment terms in this letter supersede any other agreements or promises made to you by anyone, whether oral or written. Your employment is contingent upon providing evidence of your legal right to work in the United States as required by the US Citizenship and immigration Services.

Qualys, Inc.
1600 Bridge Parkway, Redwood Shores, CA 94065
T 650 801 6100 F 650 801 6101 www.qualys.com

We look forward to your acceptance of employment with Qualys under the terms described above. To accept this offer, please sign and date this letter. Please return the original offer letter along with the Employee Proprietary Information and Inventions Agreement In the enclosed envelope and keep a copy of the offer letter for your records. This offer will expire on Thursday, May 10, 2012 and is contingent upon successful reference checks and a satisfactory background check.

Bruce, we are excited about you joining our team. If you have any questions, please feel free to call me at (650) 801-6151.

Sincerely,

/s/ Rima Touma Bruno
Rima Touma Bruno
VP, Human Resources

Offer Accepted By:

Date Accepted:

Start Date:

/s/ Bruce K. Posey

Bruce K. Posey

5/8/12

May 21, 2012

LEASE AGREEMENT

By and Between

WESTPORT OFFICE PARK, LLC,
a California limited liability company

("Landlord")

and

QUALYS, INC.,
a Delaware corporation

("Tenant")

July 11, 2006

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LEASE AGREEMENT

WITNESSETH:

THIS LEASE AGREEMENT, (this "Lease") is made and entered into as of July 11, 2006 by and between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord"), and QUALYS, INC., a Delaware corporation ("Tenant").

ARTICLE 1.
PREMISES

1.1 Subject to all of the terms and conditions hereinafter set forth, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises (the "Premises"), outlined on Exhibit B to this Lease, comprised of approximately 37,174 rentable square feet of the building commonly known as 1600 Bridge Parkway, Redwood City, California (the "Building"). The Premises is comprised of an area containing approximately 25,472 rentable square feet (the "Existing Space") that is currently occupied by Tenant under an existing sublease (the "Sublease") that expires July 31, 2006 (including all of the improvements therein existing on the date hereof), and an area containing approximately 11,702 rentable square feet (the "Expansion Space"). The Existing Space and the Expansion Space are more particularly shown on Exhibit B. The property shown on Exhibit A to this Lease and all improvements thereon and appurtenances on that land thereto, including, but not limited to, the Building, other office buildings, access roadways, and all other related areas, shall be collectively hereinafter referred to as the "Project." Tenant acknowledges and agrees that Landlord may elect to sell one or more of the buildings within the Project and that upon any such sale Tenant's pro-rata share of those Operating Expenses and Taxes (each as defined below) allocated to the areas of the Project other than buildings may be adjusted accordingly by Landlord; provided that in the event that more than six (6) of the existing buildings and associated land owned by Landlord as of the date of this Lease are sold, Tenant's share of Operating Expenses for amenities and common facilities serving the entire Project on the date of this Lease shall not exceed the pro rata share that Tenant would be obligated to pay if Landlord owned fourteen (14) of the buildings and related land.

1.2 Notwithstanding anything to the contrary in this Lease, the recital of the rentable area herein above set forth is for descriptive purposes only. Tenant shall have no right to terminate this Lease or receive any adjustment or rebate of any Base Rent or Additional Rent (as hereinafter defined) payable hereunder if said recital is incorrect. The Tenant has inspected the Premises and is fully familiar with the scope and size thereof and agrees to pay the full Base Rent and Additional Rent set forth herein in consideration for the use and occupancy of said space, regardless of the actual number of square feet contained therein. For purposes of this Lease, (1) "rentable area" and "usable area" have been calculated pursuant to the Standard Method for Measuring Floor Area in Office Buildings (ANSI/BOMA Z65.1, 1996); (2) "rentable square feet" and "rentable footage" shall have the same meaning as the term "rentable area;" and (3) "usable square feet" and "usable square footage" shall have the same meaning as the term "usable area."

ARTICLE 2.
TERM AND CONDITION OF PREMISES

2.1 The term of this Lease (the "Term") with respect to the Existing Space shall commence on August 1, 2006 (the "Commencement Date"), and end on July 31, 2011 (the "Expiration Date"), unless sooner terminated (the "Termination Date") as hereinafter provided. The Term with respect to the Expansion Space shall commence on the date (the "Expansion Space Commencement Date") that is the later of (a) October 1, 2006, or (b) the date upon which substantial completion of Landlord's Work (as defined below) and the delivery of the Expansion Premises to Tenant occurs and be coterminus with the Existing Space Term. Landlord's Work shall be deemed substantially completed upon the (a) issuance of a certificate of substantial completion by Landlord's architect as to construction of Landlord's Work and (b) the issuance of a temporary or permanent certificate of occupancy for the Expansion Space by the local building authority (or a reasonably substantial equivalent such as a sign-off from a building inspector), notwithstanding that minor or unsubstantial details or construction, mechanical adjustment or decoration remains to be performed. The Expansion Space Commencement Date Lease and the obligation of Tenant to pay Base Rent, Additional Rent and all other charges hereunder for the Expansion Space shall not be delayed or postponed by reason of any delay by Tenant in performing changes or alterations in the Expansion Space not required to be performed by Landlord. In the event the Term for the Expansion Space shall commence on a day other than the first day of a month, then the Base Rent for the Expansion Space shall be immediately paid for such partial month prorated on the basis of a thirty (30) day month. As soon as the Expansion Space Commencement Date is determined, Tenant shall execute a Commencement Date memorandum in the form attached hereto as Exhibit F acknowledging, among other things, the (a) Expansion Space Commencement Date, and (b) Tenant's acceptance of the Premises. The Tenant's failure to execute the Commencement Date Memorandum shall not affect Tenant's liability hereunder.

2.2 Landlord shall perform the construction work (i.e., the "Tenant Improvements" as defined in Exhibit C) in the Expansion Space as provided in Exhibit C hereto ("Landlord's Work") in a good and workmanlike manner and in compliance with all laws, rules, regulations, building codes and ordinances. Except for Landlord's Work, Landlord has no obligation to construct improvements in the Premises. Tenant acknowledges that Tenant will be in possession of the Existing Space prior to the Commencement Date pursuant to the Sublease. Tenant acknowledges that except as specifically set forth in the Lease, Landlord has no obligation and has made no promise to alter, remodel, improve or repair the Existing Space, or any part thereof, or to repair, bring into compliance with applicable laws, or improve any condition existing in the Existing Space. Any improvements or personal property located in the Existing Space are delivered without any representation or warranty from Landlord, either express or implied, of any kind, including without limitation, merchantability or suitability for a particular purpose or, with respect to personal property, title. The taking of possession of the Existing Space by Tenant shall be conclusive evidence that the Existing Space were in good and satisfactory condition at the time possession was taken by Tenant, except for latent defects. Neither Landlord nor Landlord's agents have made any representations or promises with respect to the condition of the Building, the Existing Space, the land upon which the Building is constructed, or any other matter or thing affecting or related to the Building or the Existing Space, except as expressly set forth in the Lease, and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in this Lease.

2.3 Tenant shall give Landlord written notice of any incomplete work, unsatisfactory conditions or defects (the “Punch List Items”) which were part of Landlord’s Work in the Expansion Space within thirty (30) days after the Expansion Space Commencement Date and Landlord shall, at its sole expense, complete said work and/or remedy such unsatisfactory conditions or defects as soon as possible. The existence of any incomplete work, unsatisfactory conditions or defects as aforesaid shall not affect the Expansion Space Commencement Date or the obligation of Tenant to pay Base Rent, Additional Rent and all other charges hereunder for the Expansion Space.

2.4 Subject to completion of the Punch List Items, latent defects and Landlord’s obligations under Section 2.6, the taking of possession of the Expansion Space by Tenant shall be conclusive evidence that the Expansion Space was in good and satisfactory condition at the time possession was taken by Tenant. Neither Landlord nor Landlord’s agents have made any representations or promises with respect to the condition of the Expansion Space or any other matter or thing affecting or related to the Expansion Space, except as herein expressly set forth.

2.5 Tenant shall be permitted to enter into ground floor Expansion Space prior to the Expansion Space Commencement Date without the obligation for payment of rent for the purposes of installing its furniture, fixtures, cabling, files and equipment; provided that (a) Tenant shall not interfere with Landlord’s construction of the Landlord’s Work, (b) Tenant first provides Landlord with all insurance required by the terms of this Lease, (c) all construction by Tenant shall be performed in accordance with the terms of this Lease, including without limitation Article 15, and (d) Tenant has coordinated its schedule of early entry with Landlord to Landlord’s reasonable satisfaction.

2.6 Landlord represents and warrants that as of the delivery of possession of the Expansion Space to Tenant, Landlord has not received any written notice that the roof, structural components of the Building HVAC system, electrical and plumbing systems, elevator, parking lot or site lighting (the “Covered Items”) violate applicable laws in effect and enforceable against the Landlord or the Building as of the date of this Lease. In the event Landlord receives notice of any violation of applicable laws with respect to any of the Covered Items existing as of or prior to the delivery of possession of the Expansion Space to Tenant, Landlord shall be responsible for the cost of correcting those violations. Notwithstanding the foregoing or anything to the contrary in Exhibit C, Landlord shall have the right to contest any alleged violation in good faith, including without limitation the right to apply for and obtain a waiver or deferment of compliance, the right to assert any and all defenses allowed by applicable law and the right to appeal any decisions, judgments or rulings to the fullest extent permitted by applicable law.

Landlord warrants that the roof, Building HVAC system, electrical and plumbing systems, elevator, parking lot or site lighting, other than those constructed by Tenant, shall be in good operating condition on the date possession of the Expansion Space is delivered to Tenant. If a non-compliance with such warranty exists as of the delivery of possession of the Expansion

Space, or if one of such Covered Items should malfunction or fail within six (6) months after the delivery of possession of the Expansion Space, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice from Tenant setting forth in reasonable detail the nature and extent of such non-compliance, malfunction or failure, rectify the same at Landlord's expense (without the same being included in Operating Expenses); provided that Landlord shall not be obligated to rectify any problem to the extent caused by Tenant's negligence, willful misconduct or breach of this Lease. If Tenant does not give Landlord the required notice within six (6) months after the Expansion Space Commencement Date, Landlord shall have no obligation with respect to that warranty other than general maintenance and repair obligations regarding the Covered Items set forth elsewhere in this Lease.

2.7 So long as no Event of Default by Tenant shall be existing under the Lease as of the date Tenant requests reimbursement of the Refurbishment Allowance (as defined below), Landlord agrees to reimburse Tenant up to, and not to exceed the sum of Sixty Three Thousand Six Hundred Eighty Dollars (\$63,800.00) (the "Refurbishment Allowance") for third-party, out-of-pocket expenses incurred by Tenant in connection with the upgrading of existing tenant improvements in the Premises (e.g., paint, carpet, finish upgrades, (the "Refurbishment Improvements"). Landlord shall reimburse Tenant for expenses based on paid invoices for goods or services rendered, within thirty (30) days of submission of said invoices. The Refurbishment Allowance shall be available for reimbursement to Tenant during the period from February 1, 2007 through July 31, 2009 (the "Window"). Any portion of the Allowance not requested by Tenant within the Window shall be deemed forfeited by Tenant and shall no longer be available for disbursement to or for the account of Tenant. All Refurbishment Improvement work shall be performed in accordance with Article 15 of this Lease.

ARTICLE 3.
USE, NUISANCE, OR HAZARD

3.1 The Premises shall be used and occupied by Tenant solely for general office purposes (including without limitation administrative, sales, product testing, operation of servers (provided that the area occupied by such servers shall not exceed twenty-five percent (25%) of the rentable square footage of the Premises) and the computer lab purposes and for no other purposes without the prior written consent of Landlord.

3.2 Tenant shall not use, occupy, or permit the use or occupancy of the Premises for any purpose which Landlord, in its reasonable discretion, deems to be illegal, immoral, or dangerous; permit any public or private nuisance; do or permit any act or thing which may disturb the quiet enjoyment of any other tenant of the Project; keep any substance or carry on or permit any operation which might introduce offensive odors or conditions into other portions of the Project, use any apparatus which might make undue noise or set up vibrations in or about the Project; permit anything to be done which would increase the premiums paid by Landlord for fire and extended coverage insurance on the Project or its contents or cause a cancellation of any insurance policy covering the Project or any part thereof or any of its contents; or permit anything to be done which is prohibited by or which shall in any way conflict with any law, statute, ordinance, or governmental rule, regulation or covenants, conditions and restrictions affecting the Project, including without limitation the CC&R's (as defined below)

now or hereinafter in force. Should Tenant do any of the foregoing without the prior written consent of Landlord, and the same is not cured within ten (10) business days after notice from Landlord (which ten (10) business day period shall be subject to extension if the nature of the breach is such that it is not possible to cure the same within such five (5) business day period so long as the Tenant commences the cure of such breach within such five (5) day period and diligently prosecutes the same to completion) it shall constitute an Event of Default (as hereinafter defined) and shall enable Landlord to resort to any of its remedies hereunder.

3.3 The ownership, operation, maintenance and use of the Project shall be subject to certain conditions and restrictions contained in an instrument (“CC&R’s”) to be recorded against title to the Project. As of the date of this Lease, there are no CC&R’s. Tenant agrees that regardless of when those CC&R’s are so recorded, this Lease and all provisions hereof shall be subject and subordinate thereto, provided that any CC&Rs hereafter recorded shall not materially increase Tenant’s obligations or materially reduce Tenant’s rights under the Lease. Accordingly, as a consequence of that subordination, during any period in which the entire Project is not owned by Landlord, (a) the portion of Operating Expenses and Taxes (each as defined below) for the Common Areas shall be allocated among the owners of the Project as provided in the CC&R’s, and (b) the CC&R’s shall govern the maintenance and insuring of the portions of the Project not owned by Landlord. Tenant shall, promptly upon request of Landlord, sign all documents reasonably required to carry out the foregoing into effect.

ARTICLE 4.
RENT

4.1 Tenant hereby agrees to pay Landlord a base annual rental (the “Base Rent”) as follows subject to recalculation as provided in Section 1.2:

| <u>Period</u> | <u>Annual Base Rent</u> | <u>Monthly Base Rent</u> |
|---------------------------------------------------------------------|-------------------------|--------------------------|
| August 1, 2006 – Day Prior to the Expansion Space Commencement Date | N/A | \$ 30,566.40 |
| Expansion Space Commencement Date – July 31, 2007 | N/A | \$ 44,608.80 |
| August 1, 2007 – July 31, 2008 | \$ 557,610.00 | \$ 46,467.50 |
| August 1, 2008 – July 31, 2009 | \$ 579,914.40 | \$ 48,326.20 |
| August 1, 2009 – July 31, 2010 | \$ 602,218.80 | \$ 50,184.90 |
| August 1, 2010 – July 31, 2011 | \$ 624,523.20 | \$ 52,043.60 |

As an inducement to Tenant entering into this Lease, Base Rent shall be abated for the first two (2) weeks after the Commencement Date. Landlord and Tenant agree for tax reporting

purposes that none of the Base Rent due in periods in which the Base Rent is not being abated shall be allocated to any other period. For purposes of rent adjustment under the Lease, the number of months is measured from the first day of the calendar month in which the Commencement Date falls. Each monthly installment (the "Monthly Rent") shall be payable by check or by money order on or before the first day of each calendar month. In addition to the Base Rent, Tenant also agrees to pay Tenant's Share of Operating Expenses and Taxes (each as hereinafter defined), and any and all other sums of money as shall become due and payable by Tenant as hereinafter set forth, all of which shall constitute additional rent under this Lease (the "Additional Rent"). Landlord expressly reserves the right to apply any payment received to Base Rent or any other items of Rent that are not paid by Tenant. The Monthly Rent and the Additional Rent are sometimes hereinafter collectively called "Rent" and shall be paid when due in lawful money of the United States without demand, deduction, abatement, or offset as follows or as Landlord may designate from time to time:

Payments via FedEx/UPS/Courier:

JP Morgan Chase
2710 Media Center Dr.
Building #6, Suite #120
Los Angeles, CA 90065
Attn: PREI's Westport Office Park/100170

Payments via regular mail (lockbox address):

Remit to: PREI's Westport Office Park #171201
P. O. Box 100170
Pasadena, CA 91189-0170

Payments via either FED wire or ACH wire:

Bank Account Name: Harvest Properties, Inc. LLC as agent for PREI's
Westport Office Park
Bank Account Number 699281689
Bank Name: Bank One Bank City & State Location: Chicago, IL
ABA Routing Number: 071000013

4.2 In the event any Monthly or Additional Rent or other amount payable by Tenant hereunder is not paid within five (5) days after its due date, Tenant shall pay to Landlord a late charge (the "Late Charge"), as Additional Rent, in an amount of five percent (5%) of the amount of such late payment. Failure to pay any Late Charge shall be deemed a Monetary Default (as hereinafter defined). Provision for the Late Charge shall be in addition to all other rights and remedies available to Landlord hereunder, at law or in equity, and shall not be construed as liquidated damages or limiting Landlord's remedies in any manner. Failure to charge or collect such Late Charge in connection with any one (1) or more such late payments shall not constitute a waiver of Landlord's right to charge and collect such Late Charges in connection with any other similar or like late payments. Notwithstanding the foregoing provisions of this Section 4.2, the 5% Late Charge shall not be imposed with respect to the first

late payment in the twelve (12) months following the Expansion Space Commencement Date or with respect to the first late payment in any succeeding twelve (12) month period during the Term unless the applicable payment due from Tenant is not received by Landlord within five (5) days following written notice from Landlord that such payment was not received when due. Following the first such written notice from Landlord in the twelve (12) months following the Expansion Space Commencement Date and the first such written notice in any succeeding twelve (12) month period during the term (but regardless of whether such payment has been received within such five (5) day period), the Late Charge will be imposed without notice for any subsequent payment due from Tenant during such applicable twelve (12) month period which is not received within five (5) days after its due date.

4.3 Simultaneously with the execution hereof, Tenant shall deliver to Landlord (i) the sum of \$30,566.40 as payment of the first installment of Monthly Rent due hereunder and (ii) an amount equal to \$65,000.00 to be held by Landlord as security for Tenant's faithful performance of all of the terms, covenants, conditions, and obligations required to be performed by Tenant hereunder (the "Security Deposit"). The Security Deposit shall be held by Landlord as security for the performance by Tenant of all of the covenants of this Lease to be performed by Tenant and Tenant shall not be entitled to interest thereon. The Security Deposit is not an advance rent deposit, an advance payment of any other kind, or a measure of Landlord's damages in any case of Tenant's default. If Tenant fails to perform any of the covenants of this Lease to be performed by Tenant, including without limitation the provisions relating to payment of rent, the removal of property at the end of the term, the repair of damage to the Premises caused by Tenant, and the cleaning of the Premises upon termination of the tenancy created hereby, then Landlord shall have the right, but no obligation, to apply the Security Deposit, or so much thereof as may be necessary, for the payment of any rent or any other sum in default and/or to cure any other such failure by Tenant. If Landlord applies the Security Deposit or any part thereof for payment of such amounts or to cure any such other failure by Tenant, then Tenant shall immediately pay to Landlord the sum necessary to restore the Security Deposit to the full amount then required by this Section 4.3 Landlord's obligations with respect to the Security Deposit are those of a debtor and not a trustee. Landlord shall not be required to maintain the Security Deposit separate and apart from Landlord's general or other funds and Landlord may commingle the Security Deposit with any of Landlord's general or other funds. Upon termination of the original Landlord's or any successor owner's interest in the Premises or the Building, the original Landlord or such successor owner shall be released from further liability with respect to the Security Deposit upon the original Landlord's or such successor owner's complying with California Civil Code Section 1950.7. Subject to the foregoing, Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of law, now or hereafter in force, which (a) establish a time frame within which a landlord must refund a security deposit under a lease, and/or (b) provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other loss or damage caused by the default of Tenant under this Lease, including without limitation all damages or rent due upon termination of this Lease pursuant to Section 1951.2 of the California Civil Code. If Tenant performs every provision of this Lease to be performed by Tenant, the unused portion of the Security Deposit shall be returned to Tenant or the last assignee of Tenant's interest under this Lease within 30 days following expiration or termination of the term of this Lease.

4.4 If the Term commences on a date other than the first day of a calendar month or expires or terminates on a date other than the last day of a calendar month, the Rent for any such partial month shall be prorated to the actual number of days Tenant is in occupancy of the Premises for such partial month.

4.5 All Rents and any other amount payable by Tenant to Landlord hereunder, if not paid within five (5) days after the date when due, shall bear interest from the date due until paid at a rate equal to the prime commercial rate established from time to time by Bank of America, plus four percent (4%) per annum; but not in excess of the maximum legal rate permitted by law. Failure to charge or collect such interest in connection with any one (1) or more delinquent payments shall not constitute a waiver of Landlord's right to charge and collect such interest in connection with any other or similar or like delinquent payments.

4.6 If Tenant makes two (2) consecutive payments of Monthly Rent which are returned to Landlord by Tenant's financial institution for insufficient funds, Landlord may require, by giving written notice to Tenant, that all future payments of Rent shall be made in cashier's check or by money order (or at Tenant's election, by wire transfer). The foregoing is in addition to any other remedy of Landlord hereunder, at law or in equity.

ARTICLE 5. RENT ADJUSTMENT

5.1 Definitions.

(a) "Operating Expenses", as said term is used herein, shall mean, without duplication, all expenses, costs, and disbursements of every kind and nature which Landlord shall pay or become obligated to pay because of or in connection with the ownership, operation, or maintenance of the Project. Operating Expenses shall be computed in accordance with generally accepted real estate practices, consistently applied, and shall include, but not be limited to, the items as listed below:

- (i) Wages, salaries, and any and all taxes, insurance and benefits of the Building manager and any clerical, maintenance, or other management employees directly associated with the operation of the Building (but excluding executives' salaries);
- (ii) All expenses for the Building management office including rent, office supplies, and materials therefor;
- (iii) All supplies, materials, and tools;
- (iv) All costs incurred in connection with the operation, maintenance, and repair of the Project including, but not limited to, the following: elevators; heating, ventilating and air conditioning systems; security; cleaning and janitorial; parking lot and landscape; window washing; building painting; and license, permit and inspection fees;

(v) Costs of water, pure water, sewer, electric, and any other utility charges;

(vi) Costs of casualty insurance, rental interruption insurance, and liability insurance, and any deductibles payable thereunder; including, without limitation, Landlord's cost of any self insurance deductible or retention;

(vii) Capital improvements made to the Project after the Commencement Date that (1) are intended to reduce Operating Expenses or (2) are reasonably necessary for the health and safety of the occupants of the Project or (3) are required under any and all applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval and requirements of all federal, state, county, municipal and governmental authorities and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Project, the Premises or the Building or the use or operation thereof, whether now existing or hereafter enacted, including, without limitation, the Americans with Disabilities Act of 1990, 42 USC 12111 et seq. (the "ADA") as the same may be amended from time to time, all Environmental Laws (as hereinafter defined), and any CC&Rs, or any corporation, committee or association formed in connection therewith, or any supplement thereto recorded in any official or public records with respect to the Project or any portion thereof (collectively, "Applicable Laws"), which capital costs shall be amortized over the useful life of the item as reasonably determined by Landlord, together with interest on the unamortized balance at a rate that Landlord would reasonably be required to pay to finance the cost of such capital improvements;

(viii) legal, accounting, inspection, and consultation fees incurred in connection with the operation of the Project.

(ix) Intentionally Deleted.

Expressly excluded from Operating Expenses are the following items:

(x) Advertising and leasing commissions;

(xi) Repairs and restoration paid for by the proceeds of any insurance policies or amounts otherwise reimbursed to Landlord or paid by any other source (other than by tenants paying their share of Operating Expenses);

(xii) Principal, interest, and other costs directly related to financing the Project or ground lease rental or depreciation;

(xiii) The cost of special services to tenants (including Tenant) for which a special charge is made;

(xiv) The costs of repair of casualty damage or for restoration following condemnation to the extent covered by insurance proceeds or condemnation awards;

(xv) The costs of any capital expenditures except as expressly permitted to be included in Operating Expenses as provided under clauses (vi), and (vii) above;

(xvi) The costs, including permit, license and inspection costs and supervision fees, incurred with respect to the installation of tenant improvements within the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space within the Project or promotional or other costs in order to market space to potential tenants;

(xvii) The legal fees and related expenses and legal costs incurred by Landlord (together with any damages awarded against Landlord) due to the bad faith violation by Landlord or any tenant of the terms and conditions of any lease of space in the Project;

(xviii) The costs arising from the presence of any Hazardous Materials (as defined below) which (a) existed on the Property as of the Commencement Date, and/or (b) were placed within, upon or beneath the Project by Landlord or any other Tenant;

(xix) The attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions (or the marketing thereof) with present or prospective tenants or other occupants of the Project;

(xx) The expenses in connection with services or other benefits which are not available to Tenant;

(xxi) The overhead and profit paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in the Project to the extent the same exceeds the costs of such goods and/or services rendered by qualified, unaffiliated third parties on a competitive basis;

(xxii) The costs arising from Landlord's charitable or political contributions;

(xxiii) The costs (other than ordinary maintenance and insurance) for sculpture, paintings and other objects of art;

(xxiv) The interest and penalties resulting from Landlord's failure to pay any items of Operating Expense when due;

(xxv) The Landlord's general corporate overhead and general and administrative expenses, costs of entertainment, dining, automobiles or travel for Landlord's employees, and costs associated with the operation of the business of the partnership or entity which constitutes Landlord as the same are distinguished from the costs of the operation of the Project, including partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee, costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Project, costs of any disputes between Landlord and its employees (if any) not engaged in the operation of the Project, disputes of Landlord with management, or outside fees paid in connection with disputes with other Project tenants or occupants (except to the extent such dispute is based on Landlord's good faith efforts to benefit Tenant or meet Landlord's obligations under this Lease);

(xxvi) The costs arising from the gross negligence or willful misconduct of Landlord;

(xxvii) The management office rental to the extent such rental exceeds the fair market rental for such space;

(xxviii) The costs of correction of latent defects in the Project to the extent covered by warranties; and

(xxix) The costs of Landlord's membership in professional organizations (such as, by way of example and without limitation, BOMA) in excess of \$2,500.00 per year;

(xxx) In the case of repairs or replacements to the Project due to casualty which are not covered by insurance (but not as a result of Landlord's failure to obtain insurance as required under this Lease) or which fall within a deductible, if such repairs and replacements, according to generally accepted accounting principles and management practices, are capital in nature, then the cost of such repairs or replacements shall be amortized over the useful life of the applicable repair or replacement item, determined in accordance with generally accepted accounting principles and management practices; provided that (i) if the repairs or replacements result from earthquake, the cumulative sum of any such annual amortization amounts plus the other costs of repairs or replacements due to casualty not covered by insurance or which fall within a deductible shall be excluded from Operating Expenses to the extent the sum of such annual amortization and other costs of repairs and replacements due to casualty exceeds Two Dollars (\$2.00) per square foot of rentable area for any calendar year; and (ii) the cumulative sum of any other such annual amortization amounts and other costs of repairs or replacements resulting from casualty other than earthquake shall be excluded from Operating Expenses to the extent the sum of such annual amortization amounts plus such other costs of repairs and replacements due to casualty not covered by insurance or which fall within a deductible exceeds One Dollar (\$1.00) per square foot of rentable area for any calendar year;

(xxxix) The cost to repair and maintain the foundations of the Building and the Project;

(xxxixii) Legal, accounting, inspection, and consultation fees incurred in connection with the financing, sale or marketing for sale of the Project or any portion thereof; and

(xxxixiii) The costs comply with any Applicable Laws applicable to and enforceable against the Premises, the Building or the Project on the Commencement Date.

(b) "Taxes" shall mean all ad valorem taxes, personal property taxes, and all other taxes, assessments, embellishments, use and occupancy taxes, transit taxes, water, sewer and pure water charges not included in Section 5.1.(a)(v) above, excises, levies, license fees or taxes, and all other similar charges, levies, penalties, or taxes, if any, which are levied, assessed, or imposed, by any Federal, State, county, or municipal authority, whether by taxing districts or authorities presently in existence or by others subsequently created, upon, or due and payable in connection with, or a lien upon, all or any portion of the tax parcel on which the Building is located, or facilities used in connection therewith, and rentals or receipts therefrom and all taxes of whatsoever nature that are imposed in substitution for or in lieu of any of the taxes, assessments, or other charges included in its definition of Taxes, and any costs and expenses of contesting the validity of same. "Taxes" shall not include and Tenant shall not be required to pay any portion of any tax or assessment expense or any increase therein (i) levied on Landlord's rental income, unless such tax or assessment expense is imposed in lieu of real property taxes; (ii) in excess of the amount which would be payable if such tax or assessment expense were paid in installments over the longest possible term; (iii) imposed on land and improvements other than the Project, or (iv) attributable to Landlord's net income, inheritance, gift, transfer, estate or state taxes.

(c) "Lease Year" shall mean the twelve (12) month period commencing January 1st and ending December 31st.

(d) "Tenant's Building Percentage" shall mean Tenant's percentage of the entire Building as determined by dividing the Rentable Area of the Premises by the total Rentable Area of the Building, which is 50,330 square feet. For the purposes of this Section, Tenant's Building Percentage is 50.61% with respect to the period after the Commencement Date and prior to the Expansion Space Commencement Date. Upon the Expansion Space Commencement Date, Tenant's Building Percentage shall be increased to 73.86%. If there is a change in the total Building Rentable Area as a result of an addition to the Building, partial destruction, modification or similar cause, which event causes a reduction or increase on a permanent basis, Landlord shall cause adjustments in the computations as shall be necessary to provide for any such changes. Landlord shall, at Landlord's option, have the right to segregate Operating Expenses into two (2) separate categories, one (1) such category, to be applicable only to Operating Expenses incurred for the Building and the other category applicable to Operating Expenses incurred for the Common Areas and/or the Project as a whole. If Landlord so segregates Operating

Expenses into two (2) categories, two (2) Tenant's Building Percentages shall apply, one (1) such Tenant's Building Percentage shall be calculated by dividing the number of rentable square feet of the Premises by the total number of rentable square feet in the Building ("Tenant's Building Only Percentage"), and the other Tenant's Building Percentage to be calculated by dividing the number of rentable square feet of the Premises by the total number of rentable square feet of all buildings in the Project ("Tenant's Common Area Building Percentage"). Consequently, if Landlord elects to so segregate Operating Expenses into two (2) categories, any reference in this Lease to "Tenant's Building Percentage" shall mean and refer to both Tenant's Building Only Percentage and Tenant's Common Area Building Percentage of Operating Expenses.

(e) "Tenant's Tax Percentage" shall mean the percentage determined by dividing the Rentable Area of the Premises by the total Rentable Area of all buildings on the same tax parcel on which the Building is located.

(f) "Common Areas" shall mean those portions of the Project which are provided, from time to time, for use in common by Landlord, Tenant and any other tenants of the Project, whether or not those areas are open to the general public, together with such other portions of the Project designated by Landlord, in its reasonable discretion, including certain areas to be shared by Landlord and all tenants, and may include, without limitation, any parking facilities, fixtures, systems, signs, facilities, or landscaping used in connection with the Project, and may include any city sidewalks adjacent to the Project, pedestrian walkway system, whether above or below grade, and roadways, sidewalks, walkways, parkways, driveways, and landscape areas appurtenant to the Project.

(g) "Market Area" shall mean the Redwood City, Foster City and San Mateo office markets.

(h) "Comparable Buildings" shall mean comparable office/R&D use buildings in the Market Area.

5.2 Tenant shall pay to Landlord, as Additional Rent, Tenant's Share (as hereinafter defined) of the Operating Expenses. "Tenant's Share" shall be determined by multiplying Operating Expenses for any Lease Year or pro rata portion thereof, by Tenant's Building Percentage. Landlord shall, in advance of each Lease Year, estimate what Tenant's Share will be for such Lease Year based, in part, on Landlord's operating budget for such Lease Year, and Tenant shall pay Tenant's Share as so estimated each month (the "Monthly Escalation Payments"). The Monthly Escalation Payments shall be due and payable at the same time and in the same manner as the Monthly Rent.

5.3 Landlord shall, within one hundred fifty (150) days after the end of each Lease Year, or as soon thereafter as reasonably possible, provide Tenant with a written statement of the actual Operating Expenses incurred during such Lease Year for the Project and such statement shall set forth Tenant's Share of such Operating Expenses. Tenant shall pay Landlord, as Additional Rent, the difference between Tenant's Share of Operating Expenses and the amount of Monthly Escalation Payments made by Tenant attributable to said Lease Year, such

payment to be made within thirty (30) days of the date of Tenant's receipt of said statement (except as provided in Section 5.4 below); similarly, Tenant shall receive a credit if Tenant's Share is less than the amount of Monthly Escalation Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Escalation Payments to become due hereunder. If utilities, janitorial services or any other components of Operating Expenses increase during any Lease Year, Landlord may revise Monthly Escalation Payments due during such Lease Year by giving Tenant written notice to that effect; and thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of the revised difference in Operating Expenses multiplied by Tenant's Building Percentage divided by the number of months remaining in such Lease Year.

5.4 If, within one hundred twenty (120) days following Tenant's receipt of the Operating Expense statement, neither party hereto delivers to the other party a notice referring in reasonable detail to one (1) or more errors in such statement, it shall be deemed conclusively that the information set forth in such statement is correct. Tenant shall, however, be entitled to conduct or require an audit to be conducted, provided that (a) not more than one (1) such audit may be conducted during any Lease Year of the Term, (b) the records for each Lease Year may be audited only once, (c) such audit is commenced within one hundred twenty (120) days following Tenant's receipt of the applicable statement, and (d) such audit is completed within two hundred ten (210) days following Tenant's receipt of the applicable statement. In no event shall payment of Rent ever be contingent upon the performance of such audit. For purposes of any audit, Tenant or Tenant's duly authorized representative, at Tenant's sole cost and expense, shall have the right, upon fifteen (15) days' written notice to Landlord, to inspect Landlord's books and records pertaining to Operating Expenses at the offices of Landlord or Landlord's managing agent during ordinary business hours, provided that such audit must be conducted so as not to interfere with Landlord's business operations and must be reasonable as to scope and time. Alternatively, at Landlord's sole discretion, Landlord may provide an audit of such books and records prepared by a certified public accountant of Landlord's selection, prepared at Tenant's expense, which shall be deemed to be conclusive for the purposes of this Lease. If actual Operating Expenses are determined to have been overstated or understated by Landlord for any calendar year, then the parties shall within thirty (30) days thereafter make such adjustment payment or refund as is applicable, and if actual Operating Expenses are determined to have been overstated by Landlord for any calendar year by in excess of seven percent (7%), then Landlord shall pay the reasonable cost of Tenant's audit, not to exceed \$5,000.00.

5.5 If the occupancy of the Building during any part of any Lease Year is less than 95%, Landlord shall make an appropriate adjustment of the variable components of Operating Expenses for that Lease Year, as reasonably determined by Landlord using sound accounting and management principles, to determine the amount of Operating Expenses that would have been incurred had the Building been 95% occupied. This amount shall be considered to have been the amount of Operating Expenses for that Lease Year. For purposes of this Section 5.6, "variable components" include only those component expenses that are affected by variations in occupancy levels.

5.6 Tenant shall pay to Landlord, as Additional Rent, "Tenant's Tax Share" (as hereinafter defined) of the Taxes. "Tenant's Tax Share" shall be determined by multiplying Taxes for any Lease Year or pro rata portion thereof, by Tenant's Tax Percentage. Landlord

shall, in advance of each Lease Year, estimate what Tenant's Tax Share will be for such Lease Year and Tenant shall pay Tenant's Tax Share as so estimated each month (the "Monthly Tax Payments"). The Monthly Tax Payments shall be due and payable at the same time and in the same manner as the Monthly Rent.

5.7 Landlord shall, within one hundred fifty (150) days after the end of each Lease Year, or as soon thereafter as reasonably possible, provide Tenant with a written statement of the actual Taxes incurred during such Lease Year for the Project and such statement shall set forth Tenant's Tax Share of such Taxes. Tenant shall pay Landlord, as Additional Rent, the difference between Tenant's Tax Share of any increases in Taxes and the amount of Monthly Tax Payments made by Tenant attributable to said Lease Year, such payment to be made within thirty (30) days of the date of Tenant's receipt of said statement; similarly, Tenant shall receive a credit if Tenant's Tax Share is less than the amount of Monthly Tax Payments collected by Landlord during said Lease Year, such credit to be applied to future Monthly Tax Payments to become due hereunder. If Taxes increase during any Lease Year, Landlord may revise Monthly Tax Payments due during such Lease Year by giving Tenant written notice to that effect; and, thereafter, Tenant shall pay, in each of the remaining months of such Lease Year, a sum equal to the amount of revised difference in Taxes multiplied by Tenant's Tax Percentage divided by the number of months remaining in such Lease Year.

5.8 If, within one hundred twenty (120) days following receipt of the Taxes statement, neither party hereto delivers to the other party a notice referring in reasonable detail to one (1) or more errors in such statement, it shall be deemed conclusively that the information set forth in such statement is correct. Tenant shall, however, be entitled to conduct or require an audit to be conducted, provided that (a) not more than one (1) such audit may be conducted during any Lease Year of the Term; (b) the records for each Lease Year may be audited only once, (c) such audit is commenced within one hundred twenty (120) days following Tenant's receipt of the applicable statement. In no event shall payment of Rent ever be contingent upon the performance of such audit, and (d) such audit is completed within two hundred ten (210) days following Tenant's receipt of the applicable statement. For purposes of any audit, Tenant or Tenant's duly authorized representative, at Tenant's sole cost and expense, shall have the right, upon fifteen (15) days' written notice to Landlord, to inspect Landlord's books and records pertaining to Taxes at the offices of Landlord or Landlord's managing agent during ordinary business hours, provided that such audit must be conducted so as not to interfere with Landlord's business operations and must be reasonable as to scope and time. Alternatively, at Landlord's sole discretion, Landlord may provide an audit of such books and records prepared by a certified public accountant of Landlord's selection, prepared at Tenant's expense, which shall be deemed to be conclusive for the purposes of this Lease. If actual Taxes are determined to have been overstated or understated by Landlord for any calendar year, then the parties shall within thirty (30) days thereafter make such adjustment payment or refund as is applicable. Despite any other provision of this Article 5, Landlord may adjust Operating Expenses and/or Taxes and submit a corrected statement to account for Taxes or other government public-sector charges (including utility charges) that are for that given year but that were first billed to Landlord after the date that is ten (10) business days before the date on which the statement was furnished.

5.9 If the Taxes for any Lease Year are changed as a result of protest, appeal or other action taken by a taxing authority, the Taxes as so changed shall be deemed the Taxes

for such Lease Year. Any expenses incurred by Landlord in attempting to protest, reduce or minimize Taxes shall be included in Taxes in the Lease Year in which those expenses are paid. Landlord shall have the exclusive right to conduct such contests, protests and appeals of the Taxes as Landlord shall determine is appropriate in Landlord's sole discretion.

5.10 Tenant's obligation with respect to Additional Rent and the payment of Tenant's Share of Operating Expenses and Tenant's Tax Share of Taxes shall survive the Expiration Date or Termination Date of this Lease and Landlord shall have the right to retain the Security Deposit, or so much thereof as it deems necessary, to secure payment of Tenant's Share of Operating Expenses and Tenant's Tax Share of Taxes for the final year of the Lease, or part thereof, during which Tenant was obligated to pay such expenses.

ARTICLE 6.
SERVICES TO BE PROVIDED BY LANDLORD

6.1 Subject to Articles 5 and 10 herein, Landlord agrees to furnish or cause to be furnished to the Premises the utilities and services described in the Standards for Utilities and Services, attached hereto as Exhibit "G," subject to the conditions and in accordance with the standards set forth herein.

6.2 Landlord shall not be liable for any loss or damage arising or alleged to arise in connection with the failure, stoppage, or interruption of any such services; nor shall the same be construed as an eviction of Tenant, work an abatement of Rent, entitle Tenant to any reduction in Rent, or relieve Tenant from the operation of any covenant or condition herein contained; it being further agreed that Landlord reserves the right, upon reasonable prior written notice (except in an emergency), to discontinue temporarily such services or any of them at such times as may be necessary by reason of repair or capital improvements performed within the Project, accident, unavailability of employees, repairs, alterations or improvements, or whenever by reason of strikes, lockouts, riots, acts of God, or any other happening or occurrence beyond the reasonable control of Landlord. In the event of any such failure, stoppage or interruption of services, Landlord shall use reasonable diligence to have the same restored. Neither diminution nor shutting off of light or air or both, nor any other effect on the Project by any structure erected or condition now or hereafter existing on lands adjacent to the Project, shall affect this Lease, abate Rent, or otherwise impose any liability on Landlord.

6.3 Landlord shall have the right to reduce heating, cooling, or lighting within the Premises and in the public area in the Building as mandated by a governmental agency.

6.4 Unless otherwise provided by Landlord, Tenant shall separately arrange with the applicable local public authorities or utilities, as the case may be, for the furnishing of and payment of all telephone and facsimile services as may be required by Tenant in the use of the Premises. Tenant shall directly pay for such telephone and facsimile services as may be required by Tenant in the use of the Premises. Tenant shall directly pay for such telephone and facsimile services, including the establishment and connection thereof, at the rates charged for such services by said authority or utility; and the failure of Tenant to obtain or to continue to receive such services for any reason whatsoever shall not relieve Tenant of any of its obligations under this Lease.

6.5 Notwithstanding anything to the contrary in Section 6.2 or elsewhere in this Lease, if (a) Landlord fails to provide Tenant with the electrical service or elevator service described in Section 6.1, or Landlord enters the Premises and such entry interferes with Tenant's reasonable use of the Premises (b) such failure or Landlord's entry is not due to any one or more Force Majeure Events or to an event covered by Article 19, (c) Tenant has given Landlord reasonably prompt written notice of such failure or that such entry by Landlord is unreasonably interfering with Tenant's use of the Premises and (d) as a result of such failure all or any part of the Premises are rendered untenable (and, as a result, all or such part of the Premises are not used by Tenant during the applicable period) for more than five (5) consecutive business days, then Tenant shall be entitled to an abatement of Rent proportional to the extent to which the Premises are thereby rendered unusable by Tenant, commencing with the later of (i) the sixth business day during which such untenability continues or (ii) the sixth business day after Landlord receives such notice from Tenant, until the Premises (or part thereof affected) are again usable or until Tenant again uses the Premises (or part thereof rendered unusable) in its business, whichever first occurs. The foregoing rental abatement shall be Tenant's exclusive remedy therefor. Notwithstanding the foregoing, the provisions of Article 19 below and not the provisions of this subsection shall govern in the event of casualty damage to the Premises or Project and the provisions of Article 20 below and not the provisions of this subsection shall govern in the event of condemnation of all or a part of the Premises or Project.

ARTICLE 7.
REPAIRS AND MAINTENANCE BY LANDLORD

7.1 Landlord shall provide for the cleaning and maintenance of the public portions of the Project in keeping with the ordinary standard for Comparable Buildings as part of Operating Expenses. Unless otherwise expressly stipulated herein, Landlord shall not be required to make any improvements or repairs of any kind or character to the Premises during the Term, except such repairs as may be required to the exterior walls, corridors, windows, roof, integrated Building utility and mechanical systems and other Base Building elements and other structural elements and equipment of the Project, and subject to Section 13.4, below, such additional maintenance as may be necessary because of the damage caused by persons other than Tenant, its agents, employees, licensees, or invitees.

7.2 Landlord or Landlord's officers, agents, and representatives (subject to any security regulations imposed by any governmental authority) shall have the right to enter all parts of the Premises at all reasonable hours upon at least one (1) business day's prior notice to Tenant (other than in an emergency) to Tenant to inspect, clean, make repairs, alterations, and additions to the Project or the Premises which it may deem necessary or desirable, to make repairs to adjoining spaces, to cure any defaults of Tenant hereunder that Landlord elects to cure pursuant to Section 22.5, below, to show the Premises to prospective tenants (during the final six (6) months of the Term or at any time after the occurrence of an Event of Default that remains uncured), mortgagees or purchasers of the Building, or to provide any service which it is obligated or elects to furnish to Tenant; and Tenant shall not be entitled to any abatement or reduction of Rent by reason thereof. Landlord and its officers, agents and representatives shall comply with Tenant's reasonable security measures in the event of any entry into the Premises. Landlord shall have the right to enter the Premises at any time and by any means in the case of an emergency.

7.3 Except as otherwise expressly provided in this Lease, Tenant hereby waives all rights it would otherwise have under California Civil Code Sections 1932(1) and 1942(a) or any successor statutes to deduct repair costs from Rent and/or terminate this Lease as the result of any failure by Landlord to maintain or repair.

ARTICLE 8.
REPAIRS AND CARE OF PROJECT BY TENANT

8.1 If the Building, the Project, or any portion thereof, including but not limited to, the elevators, boilers, engines, pipes, and other apparatus, or members of elements of the Building (or any of them) used for the purpose of climate control of the Building or operating of the elevators, or of the water pipes, drainage pipes, electric lighting, or other equipment of the Building or the roof or outside walls of the Building and also the Premises improvements, including but not limited to, the carpet, wall coverings, doors, and woodwork, become damaged or are destroyed through the negligence, carelessness, or misuse of Tenant, its servants, agents, employees, or anyone permitted by Tenant to be in the Building, or through it or them, then the reasonable cost of the necessary repairs, replacements, or alterations shall be borne by Tenant who shall pay the same to Landlord as Additional Rent within ten (10) days after demand, subject to Section 13.4 below. Landlord shall have the exclusive right, but not the obligation, to make any repairs necessitated by such damage.

8.2 Subject to Section 13.4 below, Tenant agrees, at its sole cost and expense, to repair or replace any damage or injury done to the Project, or any part thereof, caused by Tenant, Tenant's agents, employees, licensees, or invitees which Landlord elects not to repair. Tenant shall not injure the Project or the Premises and shall maintain the elements of the Premises not to be maintained by Landlord pursuant to this Lease in a clean, attractive condition and in good repair. If Tenant fails to keep such elements of the Premises in such good order, condition, and repair as required hereunder to the satisfaction of Landlord and such failure is not cured by Tenant within thirty (30) days of delivery of written notice of the same by Landlord (or such longer period reasonably necessary to cure the same provided Tenant commences such cure within such thirty (30) day period and diligently prosecutes the same to completion), Landlord may restore the Premises to such good order and condition and make such repairs without liability to Tenant for any loss or damage that may accrue to Tenant's property or business by reason thereof, and within ten (10) days after completion thereof, Tenant shall pay to Landlord, as Additional Rent, upon demand, the cost of restoring the Premises to such good order and condition and of the making of such repairs, plus an additional charge of ten percent (10%) thereof. Tenant shall leave the Premises at the end of each business day in a reasonably tidy condition for the purpose of allowing the performance of Landlord's cleaning services. Upon the Expiration Date or the Termination Date, Tenant shall surrender and deliver up the Premises to Landlord in the same condition in which it existed at the date of this Lease for the Existing Premises and at the Expansion Space Commencement Date for the Expansion Space, excepting only ordinary wear and tear and damage arising from casualty or condemnation or any other cause not required to be repaired by Tenant. Upon the Expiration Date or the Termination Date, Landlord shall have the right to re-enter and take possession of the Premises.

8.3 Tenant shall not provide any janitorial or cleaning services without Landlord's written consent, and then only subject to supervision of Landlord, at Tenant's sole responsibility and expense, and by a janitorial or cleaning contractor or employees at all times reasonably satisfactory to Landlord.

ARTICLE 9.
TENANT'S EQUIPMENT AND INSTALLATIONS

9.1 If heat-generating machines or equipment (excluding personal computers and printers), including telephone equipment, cause the temperature in the Premises, or any part thereof, to exceed the temperatures the Building's air conditioning system would be able to maintain in such Premises were it not for such heat-generating equipment, then Landlord reserves the right to install supplementary air conditioning units in the Premises, and the cost thereof, including the cost of installation and the cost of operation and maintenance thereof, including water, shall be paid by Tenant to Landlord within ten (10) days after demand by Landlord.

9.2 Tenant shall not, without the specific written consent of Landlord (which consent shall not be unreasonably withheld, conditioned, or delayed), install or maintain any apparatus or device within the Premises which shall increase the usage of electrical power or water for the Premises to an amount greater than would be normally required for general office use for space of comparable size in the Market Area; and if any such apparatus or device is so installed, Tenant agrees to furnish Landlord a written agreement to pay for any additional costs of utilities as the result of said installation. Landlord has consented to the installation and maintenance of the servers of the same level existing in the Existing Space on the date of this Lease and servers and computer labs of the same level as contemplated by the plans and specifications of the Tenant Improvements in the Expansion Space.

ARTICLE 10.
FORCE MAJEURE

10.1 It is understood and agreed that with respect to any service or other obligation to be furnished or obligations to be performed by either party that in no event shall either party be liable for failure to furnish or perform the same when prevented from doing so by strike, lockout, breakdown, accident, supply, or inability by the exercise of reasonable diligence to obtain supplies, parts, or employees necessary to furnish such service or meet such obligation; or because of war or other emergency; or for any cause beyond the reasonable control with the party obligated for such performance; or for any cause due to any act or omission of the other party or its agents, employees, licensees, invitees, or any persons claiming by, through, or under the other party; or because of the failure of any public utility to furnish services; or because of order or regulation of any federal, state, county or municipal authority (collectively, "Force Majeure Events"). Nothing in this Section 10.1 shall limit or otherwise modify or waive Tenant's obligation to pay Base Rent and Additional Rent as and when due pursuant to the terms of this Lease.

ARTICLE 11.
CONSTRUCTION, MECHANICS' AND MATERIALMAN'S LIENS

11.1 Tenant shall not suffer or permit any construction, mechanics' or materialman's lien to be filed against the Premises or any portion of the Project by reason of work, labor services, or materials supplied or claimed to have been supplied to Tenant. Nothing herein contained shall be deemed or construed in any way as constituting the consent or request of Landlord, expressed or implied, by inference or otherwise, for any contractor, subcontractor, laborer, or materialman to perform any labor or to furnish any materials or to make any specific improvement, alteration, or repair of or to the Premises or any portion of the Project; nor of giving Tenant any right, power, or authority to contract for, or permit the rendering of, any services or the furnishing of any materials that could give rise to the filing of any construction, mechanics' or materialman's lien against the Premises or any portion of the Project.

11.2 If any such construction, mechanics' or materialman's lien shall at any time be filed against the Premises or any portion of the Project as the result of any act or omission of Tenant, Tenant covenants that it shall, within twenty (20) days after Tenant has notice of the claim for lien, procure the discharge thereof by payment or by giving security or in such other manner as is or may be required or permitted by law or which shall otherwise satisfy Landlord. If Tenant fails to take such action, Landlord, in addition to any other right or remedy it may have, may take such action as may be reasonably necessary to protect its interests. Any amounts paid by Landlord in connection with such action, all other expenses of Landlord incurred in connection therewith, including reasonable attorneys' fees, court costs, and other necessary disbursements shall be repaid by Tenant to Landlord within ten (10) days after demand.

ARTICLE 12.
ARBITRATION

12.1 In the event that a dispute arises under Section 5.3 above, the same shall be submitted to arbitration in accordance with the provisions of applicable state law, if any, as from time to time amended. Arbitration proceedings, including the selection of an arbitrator, shall be conducted pursuant to the rules, regulations, and procedures from time to time in effect as promulgated by the American Arbitration Association (the "Association"). Prior written notice of application by either party for arbitration shall be given to the other at least ten (10) days before submission of the application to the said Association's office in the city wherein the Building is situated (or the nearest other city having an Association office). The arbitrator shall hear the parties and their evidence. The decision of the arbitrator may be entered in the appropriate court of law; and the parties consent to the jurisdiction of such court and further agree that any process or notice of motion or other application to the court or a judge thereof may be served outside the state wherein the Building is situated by registered mail or by personal service, provided a reasonable time for appearance is allowed. The costs and expenses of each arbitration hereunder and their apportionment between the parties shall be determined by the arbitrator in his or her award or decision, subject to the last sentence of this section. No arbitrable dispute shall be deemed to have arisen under this Lease (a) prior to the expiration of the period of twenty (20) days after the date of the giving of written notice by the party asserting the existence of the dispute, together with a description thereof sufficient for an understanding

thereof, and (b) where Tenant disputes the amount of a Tenant payment required hereunder (e.g., Operating Expense excess under Section 5.3 hereof), prior to Tenant paying in full the amount billed by Landlord, including the disputed amount. The prevailing party in such arbitration shall be reimbursed for its expenses, including reasonable attorneys' fees. Notwithstanding the foregoing, in no event shall this Article 12 affect or delay Landlord's unlawful detainer rights under California law.

ARTICLE 13.
INSURANCE

13.1 Landlord shall maintain, as a part of Operating Expenses, fire and extended coverage insurance on the Project in an amount equal to the full replacement cost of the Project, subject to such deductibles as Landlord may determine. Landlord shall not be obligated to insure, and shall not assume any liability of risk of loss for, any of Tenant's furniture, equipment, machinery, goods, supplies, improvements or alterations upon the Premises. Such insurance shall be maintained with an insurance company selected, and in amounts desired, by Landlord or Landlord's mortgagee, and payment for losses thereunder shall be made solely to Landlord subject to the rights of the holder of any mortgage or deed of trust which may now or hereafter encumber the Project. Additionally Landlord may maintain such additional insurance, including, without limitation, earthquake insurance, flood insurance, liability insurance and/or rent insurance, as Landlord may in its sole discretion elect. The cost of all such additional insurance shall also be part of the Operating Expenses. Any or all of Landlord's insurance may be provided by blanket coverage maintained by Landlord or any affiliate of Landlord under its insurance program for its portfolio of properties or by Landlord or any affiliate of Landlord's program of self insurance, and in such event Operating Expenses shall include the portion of the reasonable cost of blanket insurance or self-insurance that is allocated to the Project.

13.2 Tenant, at its own expense, shall maintain with licensed insurers authorized to do business in the State of California and which are rated A- and have a financial size category of at least VIII in the most recent Best's Key Rating Guide, or any successor thereto (or if there is none, an organization having a national reputation), (a) commercial general liability insurance, including Broad Form Property Damage and Contractual Liability with the following minimum limits: General Aggregate \$2,000,000.00; Products/Completed Operations Aggregate \$2,000,000.00; Each Occurrence \$1,000,000.00; Personal and Advertising Injury \$1,000,000.00; Medical Payments \$5,000.00 per person, (b) Umbrella/Excess Liability on a following form basis with the following minimum limits: General Aggregate \$5,000,000.00; Each Occurrence \$5,000,000.00; (c) Workers' Compensation with statutory limits; (d) Employer's Liability insurance with the following limits: Bodily injury by disease per person \$1,000,000.00; Bodily injury by accident policy limit \$1,000,000.00; Bodily injury by disease policy limit \$1,000,000.00; (e) property insurance on special causes of loss insurance form covering any and all personal property of Tenant including but not limited to alterations, improvements (exclusive of the initial improvements (if any) constructed pursuant to Exhibit C), betterments, furniture, fixtures and equipment in an amount not less than their full replacement cost, with a commercially reasonable deductible; and (f) comprehensive automobile liability insurance having a combined single limit of not less than One Million Dollars (\$1,000,000.00) per occurrence and insuring Tenant against liability for claims arising out of ownership, maintenance or use of any owned, hired or non-owned automobiles. At all times during the

Term, such insurance shall be maintained, and Tenant shall cause a current and valid certificate of such policies to be deposited with Landlord. If Tenant fails to have a current and valid certificate of such policies on deposit with Landlord at all times during the Term and such failure is not cured within three (3) business days following Tenant's receipt of notice thereof from Landlord, Landlord shall have the right, but not the obligation, to obtain such an insurance policy, and Tenant shall be obligated to pay Landlord the amount of the premiums applicable to such insurance within ten (10) days after Tenant's receipt of Landlord's request for payment thereof. Said policy of liability insurance shall include Landlord and Landlord's managing agent as additional insureds and shall provide that the insurer shall endeavor to provide thirty (30) days' written notice to Landlord prior to cancellation (ten (10) days written notice for cancellation due to nonpayment).

13.3 Tenant shall adjust every five (5) years the amount of coverage established in Article 13.2 hereof to such amount as in Landlord's reasonable opinion, adequately protects Landlord's interest; provided the same is consistent with the amount of coverage customarily required of comparable tenants in Comparable Buildings.

13.4 Notwithstanding anything herein to the contrary, Landlord and Tenant each hereby waives any and all rights of recovery, claim, action, or cause of action against the other, its agents, employees, licensees, or invitees for any loss or damage to or at the Premises or the Project or any personal property of such party therein or thereon by reason of fire, the elements, or any other cause which would be insured against under the terms of fire and extended coverage insurance or, to the extent of such insurance actually carried or required to be carried under the Lease, regardless of cause or origin, including omission of the other party hereto, its agents, employees, licensees, or invitees. Landlord and Tenant covenant that no insurer shall hold any right of subrogation against either of such parties with respect thereto. This waiver shall be ineffective against any insurer of Landlord or Tenant to the extent that such waiver is prohibited by the laws and insurance regulations of the State of California. The parties hereto agree that any and all such insurance policies required to be carried by either shall be endorsed with a subrogation clause, substantially as follows: "This insurance shall not be invalidated should the insured waive, in writing prior to a loss, any and all right of recovery against any party for loss occurring to the property described therein, "and shall provide that such party's insurer waives any right of recovery against the other party in connection with any such loss or damage.

In the event Tenant's occupancy or conduct of business in or on the Premises, whether or not Landlord has consented to the same, results in any increase in premiums for the insurance carried from time to time by Landlord with respect to the Building, Tenant shall pay any such increase in premiums as Rent within ten (10) days after bills for such additional premiums shall be rendered by Landlord. In determining whether increased premiums are a result of Tenant's use or occupancy of the Premises, a schedule issued by the organization computing the insurance rate on the Building showing the various components of such rate, shall be conclusive evidence of the several items and charges which make up such rate. Tenant shall promptly comply with all reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Premises.

ARTICLE 14.
QUIET ENJOYMENT

14.1 Provided Tenant is not in default under this Lease after the expiration of any period for cure in the performance of all its obligations under this Lease, including, but not limited to, the payment of Rent and all other sums due hereunder, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance by Landlord, subject to the provisions and conditions set forth in this Lease.

ARTICLE 15.
ALTERATIONS

15.1 Tenant agrees that it shall not make or allow to be made any alterations, physical additions, or improvements in or to the Premises without first obtaining the written consent of Landlord in each instance. As used herein, the term "Minor Alteration" refers to an alteration that (a) does not affect the outside appearance of the Building and is not visible from the Common Areas, (b) is non-structural and does not impair the strength or structural integrity of the Building, and (c) does not affect the mechanical, electrical, HVAC or other systems of the Building. Landlord agrees not to unreasonably withhold its consent to any Minor Alteration. Landlord's consent to any other alteration may be conditioned, given, or withheld in Landlord's sole discretion. Notwithstanding the foregoing, Landlord consents to any repainting, recarpeting, or other purely cosmetic changes or upgrades to the Premises, so long as (i) the aggregate cost of such work is less than \$25,000.00 in any twelve-month period, (ii) such work constitutes a Minor Alteration (iii) no building permit is required in connection therewith, and (iv) such work conforms to the then existing Specifications (as defined in Exhibit C). At the time of said request, Tenant shall submit to Landlord plans and specifications of the proposed alterations, additions, or improvements; and Landlord shall have a period of fifteen (15) days therefrom in which to review and approve or disapprove said plans; provided that if Landlord determines in good faith that Landlord requires a third party to assist in reviewing such plans and specifications, Landlord shall instead have a period of not less than thirty (30) days in which to review and approve or disapprove said plans. Tenant shall pay to Landlord upon demand the reasonable out-of-pocket cost and expense of Landlord in (A) reviewing said plans and specifications, and (B) inspecting the alterations, additions, or improvements to determine whether the same are being performed in accordance with the approved plans and specifications and all laws and requirements of public authorities, including, without limitation, the fees of any architect or engineer employed by Landlord for such purpose. In any instance where Landlord grants such consent, and permits Tenant to use its own contractors, laborers, materialmen, and others furnishing labor or materials for Tenant's construction (collectively, "Tenant's Contractors"), Landlord's consent shall be deemed conditioned upon each of Tenant's Contractors (1) working in harmony and not interfering with any laborer utilized by Landlord, Landlord's contractors, laborers, or materialmen; (2) furnishing Landlord with evidence of acceptable liability insurance, worker's compensation coverage and if required by Landlord, completion bonding, and if at any time such entry by one or more persons furnishing labor or materials for Tenant's work shall cause such disharmony or interference, the consent granted by Landlord to Tenant may be withdrawn immediately upon written notice from Landlord to Tenant. Tenant, at its expense, shall obtain all necessary governmental permits and certificates for the commencement and prosecution of alterations, additions, or improvements and for final approval thereof upon completion, and all

cause any alterations, additions, or improvements to be performed in compliance therewith and with all applicable laws and requirements of public authorities and with all applicable requirements of insurance bodies. All alterations, additions, or improvements shall be diligently performed in a good and workmanlike manner, using new materials and equipment at least equal in quality and class to be better than (a) the original installations of the Building, or (b) the then standards for the Comparable Building. Upon the completion of work and upon request by Landlord, Tenant shall provide Landlord copies of all waivers or releases of lien from each of Tenant's Contractors. No alterations, modifications, or additions to the Project or the Premises shall be removed by Tenant either during the Term or upon the Expiration Date or the Termination Date without the express written approval of Landlord. Tenant shall not be entitled to any reimbursement or compensation resulting from its payment of the cost of constructing all or any portion of said improvements or modifications thereto unless otherwise expressly agreed by Landlord in writing. Tenant agrees specifically that no food, soft drink, or other vending machine shall be installed within the Premises, without the prior written consent of Landlord. Landlord hereby consents to Tenant's installation of such vending machines in any kitchen and break area in the Premises, so long as such use is incidental to Tenant's use of the Premises.

15.2 Landlord's approval of Tenant's plans for work shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act. Landlord may, at its option, at Tenant's expense, require that Landlord's contractors be engaged for any work upon the integrated Building mechanical or electrical systems.

15.3 At least five (5) days prior to the commencement of any work permitted to be done by persons requested by Tenant on the Premises, Tenant shall notify Landlord of the proposed work and the names and addresses of Tenant's Contractors. During any such work on the Premises, Landlord, or its representatives, shall have the right to go upon and inspect the Premises at all reasonable times, and shall have the right to post and keep posted thereon building permits or to take any further action which Landlord may deem to be proper for the protection of Landlord's interest in the Premises.

ARTICLE 16.
FURNITURE, FIXTURES, AND PERSONAL PROPERTY

16.1 Tenant, at its sole cost and expense, may remove its trade fixtures, office supplies and moveable office furniture and equipment not attached to the Project or Premises provided:

- (a) Such removal is made prior to the Expiration Date or the Termination Date;
- (b) No Event of Default exists under this Lease at the time of such removal; and
- (c) Tenant promptly repairs all damage caused by such removal.

16.2 If Tenant does not remove its trade fixtures, office supplies, and moveable furniture and equipment as herein above provided prior to the Expiration Date or the Termination Date (unless prior arrangements have been made with Landlord and Landlord has agreed in writing to permit Tenant to leave such items in the Premises for an agreed period), then, in addition to its other remedies, at law or in equity, Landlord shall have the right to have such items removed and stored at Tenant's sole cost and expense and all damage to the Project or the Premises resulting from said removal shall be repaired at the cost of Tenant; Landlord may elect that such items automatically become the property of Landlord upon the Expiration Date or the Termination Date, and Tenant shall not have any further rights with respect thereto or reimbursement therefor subject to the provisions of applicable law. All other property in the Premises, any alterations, or additions to the Premises (including wall-to-wall carpeting, paneling, wall covering, specially constructed or built-in cabinetry or bookcases), and any other article attached or affixed to the floor, wall, or ceiling of the Premises (but excluding Tenant's personal property, furniture and equipment) shall become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the Expiration or Termination Date regardless of who paid therefor; and Tenant hereby waives all rights to any payment or compensation therefor. If, however, Landlord so requests, in writing at the time of consent thereto (or in the event consent thereto is not required, within thirty (30) days after receiving written notice from Tenant of Tenant's intent to construct the same), Tenant shall remove, prior to the Expiration Date or the Termination Date, any and all alterations, additions, fixtures, equipment, and property placed or installed in the Premises and shall repair any damage caused by such removal. Prior to commencing any Alteration, Tenant may request that Landlord notify Tenant whether or not the proposed Alteration will be required by Landlord to be removed at the end of the term.

16.3 All the furnishings, fixtures, equipment, effects, and property of every kind, nature, and description of Tenant and of all persons claiming by, through, or under Tenant which, during the continuance of this Lease or any occupancy of the Premises by Tenant or anyone claiming under Tenant, may be on the Premises or elsewhere in the Project shall be at the sole risk and hazard of Tenant, and if the whole or any part thereof shall be destroyed or damaged by fire, water, or otherwise, or by the leakage or bursting of water pipes, steam pipes, or other pipes, by theft, or from any other cause, no part of said loss or damage is to be charged to or be borne by Landlord unless due to the gross negligence or willful misconduct of Landlord or its employees, agents or contractors. All of such furnishings, fixtures, equipment, effects, and property shall at all times be and remain Tenant's property. Tenant may at any time remove the same from the Premises, provided that Lessee repairs all damage caused by such removal.

ARTICLE 17.
PERSONAL PROPERTY AND OTHER TAXES

17.1 During the Term hereof, Tenant shall pay, prior to delinquency, all business and other taxes, charges, notes, duties, and assessments levied, and rates or fees imposed, charged, or assessed against or in respect of Tenant's occupancy of the Premises or in respect of the personal property, trade fixtures, furnishings, equipment, and all other personal and other property of Tenant contained in the Project (including without limitation taxes and assessments attributable to the cost or value of any leasehold improvements made in or to the Premises by or for Tenant (to the extent that the assessed value of those leasehold improvements

exceeds the assessed value of standard office improvements in other space in the Project regardless of whether title to those improvements is vested in Tenant or Landlord but excluding therefrom the Landlord Work)), and shall hold Landlord harmless from and against all payment of such taxes, charges, notes, duties, assessments, rates, and fees, and against all loss, costs, charges, notes, duties, assessments, rates, and fees, and any and all such taxes. Tenant shall cause said fixtures, furnishings, equipment, and other personal property to be assessed and billed separately from the real and personal property of Landlord. In the event any or all of Tenant's fixtures, furnishings, equipment, and other personal property shall be assessed and taxed with Landlord's real property, Tenant shall pay to Landlord Tenant's share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's property.

17.2 The demised property herein may be subject to a special assessment levied by the City of Redwood City as part of an Improvement District.

ARTICLE 18.
ASSIGNMENT AND SUBLETTING

18.1 Tenant shall not, without the prior written consent of Landlord, which consent shall not be unreasonably withheld (except that Landlord shall in no event be obligated to consent to an encumbrance of this Lease or (subject to Section 18.2) any transfer by operation of law): (a) assign, convey, mortgage or otherwise transfer this Lease or any interest hereunder, or sublease the Premises, or any part thereof, whether voluntarily or by operation of law; or (b) permit the use of the Premises or any part thereof by any person other than Tenant and its employees. Any such transfer, sublease or use described in the preceding sentence (a "Transfer") occurring without the prior written consent of Landlord shall, at Landlord's option, be void and of no effect. Landlord's consent to any Transfer shall not constitute a waiver of Landlord's right to withhold its consent to any future Transfer. Landlord may require as a condition to its consent to any assignment of this Lease that the assignee execute an instrument in which such assignee assumes the remaining obligations of Tenant hereunder; provided that the acceptance of any assignment of this Lease by the applicable assignee shall automatically constitute the assumption by such assignee of all of the remaining obligations of Tenant that accrue following such assignment. The voluntary or other surrender of this Lease by Tenant or a mutual cancellation hereof shall not work a merger and shall, at the option of Landlord, terminate all or any existing sublease or may, at the option of Landlord, operate as an assignment to Landlord of Tenant's interest in any or all such subleases.

18.2 A sale, transfer, pledge, or hypothecation by Tenant of all or substantially all of its assets or all or substantially all of its stock, (except where Tenant is a publicly traded corporation), a merger of Tenant with another corporation where Tenant is not the surviving corporation, or a sale of fifty percent (50%) or more of its stock or a sale of substantially all its assets; or the sale, transfer, pledge, or hypothecation of fifty percent (50%) or more of the beneficial ownership interest in Tenant if Tenant is a partnership or other business association, without the prior written consent of Landlord, shall, in any of the foregoing cases and whether or not accomplished by one or more related or unrelated transactions, constitute a Transfer for purposes of this Article 18. Notwithstanding anything to the contrary contained in this Article 18, Tenant may assign this Lease or sublet the Premises without the need for Landlord's

prior consent if such assignment or sublease is to a Permitted Tenant Affiliate and may engage in Approved Reorganizations, without the express consent of Landlord; provided that at least ten (10) days prior to the effective date of the assignment or sublease, Tenant shall furnish Landlord with the name of the transferee and a written certification from an officer of Tenant certifying that the assignment or sublease qualifies as a transfer to a Permitted Tenant Affiliate or as an Approved Reorganization. To the extent that legal requirements or confidentiality requirements do not permit Tenant to give Landlord prior notice of an assignment or sublease permitted under this Section 18.2, then Tenant may in lieu of the prior notice required under this Section 18.2 give Landlord notice within ten (10) days after the effective date of the assignment or sublease, together with the name of the transferee and a written certification from an officer of Tenant certifying that the assignment or sublease qualifies as a transfer to a Permitted Tenant Affiliate or as an Approved Reorganization. As used herein, the term "Permitted Tenant Affiliate" means an entity that, prior to the transaction, was controlling, under common control with, or controlled by, Tenant, but excluding any entity formed to avoid the restrictions on transfer by Tenant hereunder. For purposes of this definition, the word "control," as used above, means the possession, directly or indirectly, of the right or power to direct or cause the direction of the management or policies of the controlled person. As used herein, the term "Approved Reorganizations" means any merger, reorganization or consolidation of Tenant (whether or not Tenant is the surviving entity), or the sale of 50% or more of the assets or stock of Tenant, in each case as a going concern, where (1) Tenant's successor (together with Tenant, so long as Tenant remains liable under this Lease) shall have a net worth following consummation of such transaction, as reasonably determined by Landlord in accordance with generally accepted accounting principles, that is at least equal to the net worth of Tenant immediately prior to such transaction. The word "person" means an individual, partnership, trust, corporation, firm or other entity. Such right to assign or sublease to a Permitted Tenant Affiliate shall be effective only for so long as such assignee or subtenant remains a Permitted Tenant Affiliate. Any change of control that results in the assignee or subtenant no longer being a Permitted Tenant Affiliate shall be deemed an assignment or subletting hereunder and subject to all of the terms and provisions of Article 18. In addition, Landlord's consent shall not be required with respect to the infusion of additional equity capital in Tenant or with respect to an initial public offering of equity securities of Tenant under the Securities Act of 1933, as amended, which results in Tenant's stock being traded on a national securities exchange, including, but not limited to, the NYSE, the NASDAQ Stock Market or the NASDAQ Small Cap Market System. The provisions of Sections 18.5 and 18.7 shall not apply to Transfers to a Permitted Tenant Affiliate or Approved Reorganizations (collectively, "Permitted Transferees").

18.3 If Tenant desires the consent of Landlord to a Transfer, Tenant shall submit to Landlord, at least thirty (30) business days prior to the proposed effective date of the Transfer, a written notice (the "Transfer Notice") which includes (a) the name of the proposed sublessee or assignee, (b) the nature of the proposed sublessee's or assignee's business, (c) the terms and provisions of the proposed sublease or assignment, and (d) current financial statements and information on the proposed sublessee or assignee. Upon receipt of the Transfer Notice, Landlord may request additional information concerning the Transfer or the proposed sublessee or assignee (the "Additional Information"). Subject to Landlord's rights under Section 18.6, Landlord shall not unreasonably withhold its consent to any assignment or sublease (excluding an encumbrance or transfer by operation of law), which consent or lack thereof shall be provided within thirty (30) business days of receipt of Tenant's Transfer Notice; provided, however,

Tenant hereby agrees that it shall be a reasonable basis for Landlord to withhold its consent if Landlord has not received the Additional Information requested by Landlord. Without limiting any other reasonable basis for withholding consent, Landlord shall not be deemed to have unreasonably withheld its consent if, in the judgment of Landlord: (i) the transferee is of a character or engaged in a business which is not in keeping with the standards or criteria used by Landlord in leasing the Building, or the general character or quality of the Building; (ii) the financial condition of the transferee is such that it may not be able to perform its obligations in connection with this Lease in the case of an assignment or the proposed sublease in the case of the sublease; (iii) the transferee is a tenant of or negotiating for space in the Building; provided that there is or will be sufficient space in the Building for such tenant, (iv) the transferee is a governmental unit; (v) an Event of Default by Tenant has occurred and is continuing; or (vi) in the judgment of Landlord, such a Transfer would violate any term, condition, covenant, or agreement of Landlord involving the Project or any other tenant's lease within it. Tenant hereby waives any right to terminate the Lease as a remedy for Landlord wrongfully withholding its consent to any Transfer and agrees that Tenant's exclusive remedies therefor shall be to seek damages and/or specific performance of Landlord's obligation to consent to such Transfer.

18.4 Landlord and Tenant agree that, in the event of any approved assignment or subletting, the rights of any such assignee or sublessee of Tenant herein shall be subject to all of the terms, conditions, and provisions of this Lease, including, without limitation, restriction on use, assignment, and subletting and the covenant to pay Rent. Landlord may collect Rent directly from such assignee or sublessee and apply the amount so collected to the Rent herein reserved; provided that Landlord shall not collect Rent directly from a sublessee unless an Event of Default exists or remains uncured under this Lease. No such consent to or recognition of any such assignment or subletting shall constitute a release of Tenant or any guarantor of Tenant's performance hereunder from further performance by Tenant or such guarantor of covenants undertaken to be performed by Tenant herein. Tenant and any such guarantor shall remain liable and responsible for all Rent and other obligations herein imposed upon Tenant, and Landlord may condition its consent to any Transfer upon the receipt of a written reaffirmation from each such guarantor in a form acceptable to Landlord (which shall not be construed to imply that the occurrence of a Transfer without such a reaffirmation would operate to release any guarantor). Consent by Landlord to a particular assignment, sublease, or other transaction shall not be deemed a consent to any other or subsequent transaction. In any case where Tenant desires to assign, sublease or enter into any related or similar transaction, whether or not Landlord consents to such assignment, sublease, or other transaction, Tenant shall pay any reasonable attorneys' fees incurred by Landlord in connection with such assignment, sublease or other transaction, including, without limitation, fees incurred in reviewing documents relating to, or evidencing, said assignment, sublease, or other transaction (which fees in the aggregate shall not exceed \$2,000 per request for consent so long as Tenant does not negotiate Landlord's form of consent document). All documents utilized by Tenant to evidence any subletting or assignment for which Landlord's consent has been requested and is required hereunder, shall be subject to prior approval (not to be unreasonably withheld, conditioned or delayed) by Landlord or its attorney.

18.5 Tenant shall be bound and obligated to pay Landlord a portion of any sums or economic consideration payable to Tenant by any sublessee, assignee, licensee, or other transferee, within ten (10) days following receipt thereof by Tenant from such sublessee, assignee, licensee, or other transferee, as the case might be, as follows:

(a) In the case of an assignment, 50% of any sums or other economic consideration received by Tenant as a result of such assignment shall be paid to Landlord after first deducting the unamortized cost of reasonable leasehold improvements paid for by Tenant in connection with such assignment and reasonable cost of any real estate commissions and attorneys' fees incurred by Tenant in connection with such assignment.

(b) In the case of a subletting, 50% of any sums or economic consideration received by Tenant as a result of such subletting shall be paid to Landlord after first deducting (i) the Rent due hereunder prorated to reflect only Rent allocable to the sublet portion of the Premises, (ii) the reasonable cost of tenant improvements made by Tenant for the specific benefit of the sublessee, which shall be amortized over the term of the sublease, and (iii) the reasonable cost of any real estate commissions and attorneys' fees incurred by Tenant in connection with such subletting, which shall be amortized over the term of the sublease.

18.6 If this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, 11 U.S.C. Section 101 et seq. or any successor or substitute therefor (the "Bankruptcy Code"), any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord, and shall not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. Any such monies or other consideration not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord. Any person or entity to whom this Lease is so assigned shall be deemed, without further act or deed, to have assumed all of the remaining obligations arising under this Lease as of the date of such assignment. Any such assignee shall, upon demand therefor, execute and deliver to Landlord an instrument confirming such assumption.

18.7 Landlord shall have the following option with respect to any assignment or subletting proposed by Tenant of more than fifty percent (50%) of the Premises for substantially the remainder of the Term of the Lease:

(a) Landlord has the option, by written notice to Tenant (the "Recapture Notice") within thirty (30) days after receiving any Transfer Notice to recapture the Space covered by the proposed sublease or the entire Premises in the case of an assignment (the "Subject Space") by terminating this Lease for the Subject Space or taking an assignment or a sublease of the Subject Space from Tenant. A timely Recapture Notice terminates this Lease or creates an assignment or a sublease for the Subject Space for the same term as the proposed Transfer, effective as of the date specified in the Transfer Notice. After such termination, Landlord may (but shall not be obligated to) enter into a lease with the party to the sublease or assignment proposed by Tenant.

(b) To determine the new Base Rent under this Lease in the event Landlord recaptures the Subject Space without terminating this Lease, the original Base Rent under the Lease shall be multiplied by a fraction, the numerator of which is the rentable square feet of the Premises retained by Tenant after Landlord's recapture and the

denominator of which is the total rentable square feet in the Premises before Landlord's recapture. The Additional Rent, to the extent that it is calculated on the basis of the rentable square feet within the Premises, shall be reduced to reflect Tenant's proportionate share based on the rentable square feet of the Premises retained by Tenant after Landlord's recapture. This Lease as so amended shall continue thereafter in full force and affect. Either party may require a written confirmation of the amendments to this Lease necessitated by Landlord's recapture of the Subject Space. If Landlord recaptures the Subject Space, Landlord shall, at Landlord's sole expense, construct any partitions required to segregate the Subject Space from the remaining Premises retained by Tenant. Tenant shall, however, pay for painting, covering or otherwise decorating the surfaces of the partitions facing the remaining Premises retained by Tenant.

ARTICLE 19.
DAMAGE OR DESTRUCTION

19.1 Casualty. If the Premises or Building should be damaged or destroyed by fire or other casualty, Tenant shall give immediate written notice to Landlord. Within thirty (30) days after receipt from Tenant of such written notice, Landlord shall notify Tenant whether the necessary repairs can reasonably be made: (a) within ninety (90) days; (b) in more than ninety (90) days but in less than one hundred eighty (180) days; or (c) in more than one hundred eighty (180) days, in each case after the date of the issuance of permits for the necessary repair or reconstruction of the portion of the Premises or Building which was damaged or destroyed.

19.1.1 Less Than 90 Days. If the Premises or Building should be damaged only to such extent that rebuilding or repairs can reasonably be completed within ninety (90) days after the issuance of permits for the necessary repair or reconstruction of the portion of the Premises which was damaged or destroyed, this Lease shall not terminate and Landlord shall repair the Premises or Building, except that Landlord shall not be required to rebuild, repair or replace Tenant's furniture, fixtures, furnishings, or equipment (collectively, "Tenant's Property") which may have been placed in, on or about the Premises by or for the benefit of Tenant. If Tenant is required to vacate all or a portion of the Premises during Landlord's repair thereof, the Base Rent payable hereunder shall be abated proportionately on the basis of the size of the area of the Premises that is damaged (i.e., the number of square feet of floor area of the Premises that is damaged compared to the total square footage of the floor area of the Premises) from the date Tenant vacates all or a portion of the Premises that was damaged only during the period the Premises or the applicable portion thereof are unfit for occupancy.

19.1.2 Greater Than 90 Days. If the Premises or Building should be damaged only to such extent that rebuilding or repairs can reasonably be completed in more than ninety (90) days but in less than one hundred eighty (180) days after the issuance of permits for the necessary repair or reconstruction of the portion of the Premises which was damaged or destroyed, then Landlord shall have the option of: (a) terminating the Lease effective upon the occurrence of such damage, in which event the Base Rent shall be abated from the date Tenant vacates the Premises; or (b) electing to repair the Premises (except that Landlord shall not be required to rebuild, repair or replace Tenant's Property). If Tenant is required to vacate all or a portion of the Premises during Landlord's repair thereof, the Base Rent payable hereunder shall be abated proportionately on the basis of the size of the area at the Premises that is damaged (i.e.,

the number of square feet of floor area of the Premises that is damaged compared to the total square footage of the floor area of the Premises) from the date Tenant vacates all or a portion of the Premises that was damaged only during the period the Premises or the applicable portion thereof are unfit for occupancy. In the event that Landlord should fail to substantially complete such repairs within one hundred eighty (180) days after the issuance of permits for the necessary repair or reconstruction of the portion of the Premises which was damaged or destroyed (such period to be extended for delays caused by Tenant or because of any Force Majeure Events, as hereinafter defined, of up to ninety (90) days), and Tenant has not reoccupied the Premises, Tenant shall have the right, as Tenant's exclusive remedy, within ten (10) days after the expiration of such one hundred eighty (180) day period, and provided that such repairs have not been substantially completed within such ten (10) day period, to terminate this Lease by delivering written notice to Landlord as Tenant's exclusive remedy, whereupon all rights of Tenant hereunder shall cease and terminate thirty (30) days after Landlord's receipt of such notice.

19.1.3 Greater Than 180 Days. If the Premises or Building should be so damaged that rebuilding or repairs cannot be completed within one hundred eighty (180) days after the issuance of permits for the necessary repair or reconstruction of the portion of the Premises or Building which was damaged or destroyed, either Landlord or Tenant may terminate this Lease by giving written notice within ten (10) days after notice from Landlord specifying such time period of repair, and this Lease shall terminate and the Rent shall be abated from the date Tenant vacates the Premises. In the event that neither party elects to terminate this Lease, Landlord shall commence and prosecute to completion the repairs to the Premises or Building, provided insurance proceeds are available to pay for the repair of all damage (except that Landlord shall not be required to rebuild, repair or replace Tenant's Property). If Tenant is required to vacate all or a portion of the Premises during Landlord's repair thereof, the Base Rent payable hereunder shall be abated proportionately on the basis of the size of the area of the Premises that is damaged (i.e., the number of square feet of floor area of the Premises that is damaged compared to the total square footage of the floor area of the Premises), from the date Tenant vacates all or a portion of the Premises that was damaged only to the extent rental abatement insurance proceeds are received by Landlord and only during the period that the Premises are unfit for occupancy.

19.1.4 Casualty During the Last Year of the Lease Term. Notwithstanding any other provisions hereof, if the Premises or Building shall be damaged within the last year of the Lease Term, and if the cost to repair or reconstruct the portion of the Premises or Building which was damaged or destroyed shall exceed \$50,000, then, irrespective of the time necessary to complete such repair or reconstruction, Landlord shall have the right, in its sole and absolute discretion, to terminate the Lease effective upon the occurrence of such damage, in which event the Rent shall be abated from the date Tenant vacates the Premises. The foregoing right shall be in addition to any other right and option of Landlord under this Article 19. Notwithstanding the foregoing, if Tenant at that time has an exercisable option to extend the Lease, then Tenant may avoid Landlord's termination under this Section 19.1.4 by exercising such option within ten (10) business days after Tenant is notified in writing of Landlord's exercise of its termination right under this Section 19.1.4.

19.2 Uninsured Casualty. Tenant shall be responsible for and shall pay to Landlord Tenant's share of any deductible or retention amount payable under the property insurance for the Building to the extent the same may be included in Operating Expenses. In the event that the Premises or any portion of the Building is damaged to the extent Tenant is unable to use the Premises and such damage is not covered by insurance proceeds received by Landlord or in the event that the holder of any indebtedness secured by the Premises requires that the insurance proceeds be applied to such indebtedness or the proceeds are otherwise not available to pay the full repair of all damage, then Landlord shall have the right at Landlord's option, in Landlord's sole and absolute discretion, either (i) to repair such damage as soon as reasonably possible at Landlord's expense, or (ii) to give written notice to Tenant within thirty (30) days after the date of the occurrence of such damage of Landlord's intention to terminate this Lease as of the date of the occurrence of such damage. In the event Landlord elects to terminate this Lease, Tenant shall have the right within ten (10) days after receipt of such notice to give written notice to Landlord of Tenant's commitment to pay the cost of repair of such damage, in which event this Lease shall continue in full force and effect, and Landlord shall make such repairs as soon as reasonably possible subject to the following conditions: Tenant shall deposit with Landlord Landlord's estimated cost of such repairs not later than five (5) business days prior to Landlord's commencement of the repair work. If the cost of such repairs exceeds the amount deposited, Tenant shall reimburse Landlord for such excess cost within ten (10) business days after receipt of an invoice from Landlord. Any amount deposited by Tenant in excess of the cost of such repairs shall be refunded within thirty (30) days of Landlord's final payment to Landlord's contractor. If Tenant does not give such notice within the ten (10) day period, or fails to make such deposit as required, Landlord shall have the right, in Landlord's sole and absolute discretion, to immediately terminate this Lease to be effective as of the date of the occurrence of the damage.

19.3 Waiver. With respect to any damage or destruction which Landlord is obligated to repair or may elect to repair, Tenant waives all rights to terminate this Lease pursuant to rights otherwise presently or hereafter accorded by law, including without limitation any rights granted under Section 1932, subdivision 2, and Section 1933, of the California Civil Code.

ARTICLE 20. CONDEMNATION

20.1 Total Condemnation. If all of the Premises is condemned by eminent domain, inversely condemned or sold under threat of condemnation for any public or quasi-public use or purpose ("Condemned"), this Lease shall terminate as of the earlier of the date the condemning authority takes title to or possession of the Premises, and Rent shall be adjusted to the date of termination.

20.2 Partial Condemnation. If any portion of the Premises or Building is condemned and such partial condemnation materially impairs Tenant's ability to use the Premises for Tenant's business, then either party may terminate this Lease as of the earlier of the date title vests in the condemning authority or as of the date an order of immediate possession is issued and Rent shall be adjusted to the date of termination. If such partial condemnation does not materially impair Tenant's ability to use the Premises for the business of Tenant, Landlord

shall promptly restore the Premises to the extent of any condemnation proceeds recovered by Landlord, excluding the portion thereof lost in such condemnation, and this Lease shall continue in full force and effect except that after the date of such title vesting or order of immediate possession Rent shall be equitably adjusted.

20.3 Award. If the Premises are wholly or partially condemned, Landlord shall be entitled to the entire award paid for such condemnation, and Tenant waives any claim to any part of the award from Landlord or the condemning authority; provided, however, Tenant shall have the right to recover from the condemning authority such compensation as may be separately awarded to Tenant in connection with costs in repairing, replacing or removing Tenant's merchandise, furniture, fixtures, leasehold improvements and equipment to a new location. No condemnation of any kind shall be construed to constitute an actual or constructive eviction of Tenant or a breach of any express or implied covenant of quiet enjoyment. Tenant hereby waives the effect of Sections 1265.120 and 1265.130 of the California Code of Civil Procedure.

20.4 Temporary Condemnation. In the event of a temporary condemnation not extending beyond the Term, this Lease shall remain in effect, Tenant shall continue to pay Rent and Tenant shall receive any award made for such condemnation except damages to any of Landlord's property. If a temporary condemnation is for a period which extends beyond the Term, this Lease shall terminate as of the date of initial occupancy by the condemning authority and any such award shall be distributed in accordance with the preceding section. If a temporary condemnation remains in effect at the expiration or earlier termination of this Lease, Tenant shall pay Landlord the reasonable cost of performing any obligations required of Tenant with respect to the surrender of the Premises (damage from such condemnation excepted).

ARTICLE 21. HOLD HARMLESS

21.1 Tenant agrees to defend, with counsel approved by Landlord, all actions against Landlord, any partner, trustee, stockholder, officer, director, employee, or beneficiary of Landlord, holders of mortgages secured by the Premises or the Project and any other party having an interest therein (the "Indemnified Parties") with respect to, and to pay, protect, indemnify, and save harmless, to the extent permitted by law, all Indemnified Parties from and against, any and all liabilities, losses, damages, costs, expenses (including reasonable attorneys' fees and expenses), causes of action, suits, claims, demands, or judgments of any nature to which any Indemnified Party is subject because of its estate or interest in the Premises or the Project arising from (a) injury to or death of any person, or damage to or loss of property on the Premises occurring in connection with or arising out of the use, condition, or occupancy of the Premises by Tenant or its agents, contractors or invitees, except to the extent, if any, caused by the gross negligence or willful misconduct of Landlord or its employees, contractors or agents, (b) any violation of this Lease by or attributable to Tenant, or (c) subject to Section 13.4, any act, fault, omission, or other misconduct of Tenant or its agents, contractors, licensees, sublessees, or invitees. Tenant agrees to use and occupy the Premises and other facilities of the Project at its own risk, and hereby releases the Indemnified Parties from any and all claims for any damage or injury to the fullest extent permitted by law.

21.2 Tenant agrees that Landlord shall not be responsible or liable to Tenant, its agents, employees, or invitees for fatal or non-fatal bodily injury or property damage occasioned by the acts or omissions of any other tenant, or such other tenant's agents, employees, licensees, or invitees, of the Project. Landlord shall not be liable to Tenant for losses due to theft, burglary, or damages done by persons on the Project.

ARTICLE 22.
DEFAULT BY TENANT

22.1 The term "Event of Default" refers to the occurrence of any one (1) or more of the following:

(a) Failure of Tenant to pay when due any sum required to be paid hereunder (the "Monetary Default") within five (5) days after written notice from Landlord; provided, however, that after the second failure to pay any sum required to be paid hereunder in any twelve (12) month period, in the event that Tenant fails a third time to pay when due any sum required to be paid hereunder during such twelve (12) month period, such failure shall be deemed to automatically constitute a Monetary Default without any obligation on Landlord to provide any additional written notice, and provided further that the Tenant acknowledges that any such written notice provided hereunder shall be in lieu of, and not in addition to, any notice to pay rent or quit pursuant to any applicable statutes;

(b) Failure of Tenant, after fifteen (15) days written notice thereof, to perform any of Tenant's obligations, covenants, or agreements except a Monetary Default, provided that if the cure of any such failure is not reasonably susceptible of performance within such fifteen (15) day period, then an Event of Default of Tenant shall not be deemed to have occurred so long as Tenant has promptly commenced and thereafter diligently prosecutes such cure to completion and completes that cure within 30 days;

(c) Tenant, or any guarantor of Tenant's obligations under this Lease (the "Guarantor"), admits in writing that it cannot meet its obligations as they become due; or is declared insolvent according to any law; or assignment of Tenant's or Guarantor's property is made for the benefit of creditors; or a receiver or trustee is appointed for Tenant or Guarantor or its property; or the interest of Tenant or Guarantor under this Lease is levied on under execution or other legal process; or any petition is filed by or against Tenant or Guarantor to declare Tenant bankrupt or to delay, reduce, or modify Tenant's debts or obligations; or any petition filed or other action taken to reorganize or modify Tenant's or Guarantor's capital structure if Tenant is a corporation or other entity. Any such levy, execution, legal process, or petition filed against Tenant or Guarantor shall not constitute a breach of this Lease provided Tenant or Guarantor shall vigorously contest the same by appropriate proceedings and shall remove or vacate the same within ninety (90) days from the date of its creation, service, or filing;

(d) The abandonment of the Premises by Tenant;

(e) The discovery by Landlord that any financial statement given by Tenant or any of its assignees, subtenants, successors-in-interest, or Guarantors was materially and knowingly false; or

(f) If Tenant or any Guarantor shall die, cease to exist as a corporation or partnership, or be otherwise dissolved or liquidated or become insolvent, or shall make a transfer in fraud of creditors.

22.2 In the event of any Event of Default by Tenant, Landlord, at its option, may pursue one or more of the following remedies without notice or demand in addition to all other rights and remedies provided for at law or in equity:

(a) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the right to collect Rent when due. No act by Landlord allowed by this Section 22.2(a) shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease.

“The lessor has the remedy described in Civil Code Section 1951.4 (lessor may continue the lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign subject only to reasonable limitations).”

(b) Landlord may terminate Tenant's right to possession of the Premises at any time by giving written notice to that effect. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. On termination, Landlord shall have the right to remove all personal property of Tenant and store it at Tenant's cost and to recover from Tenant as damages: (i) the worth at the time of award of unpaid Rent and other sums due and payable which had been earned at the time of termination; plus (ii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of the Rent loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable for the balance of the Term after the time of award exceeds the amount of the Rent loss that Tenant proves could be reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, or which, in the ordinary course of things, would be likely to result therefrom, including, without limitation, any costs or expenses incurred by Landlord: (A) in retaking possession of the Premises, including reasonable attorneys' fees and costs therefor; (B) maintaining or preserving the Premises for reletting to a new tenant, including repairs or alterations to the Premises for the reletting; (C) leasing commissions; (D) any other costs necessary or appropriate to relet the Premises; and (E) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of California.

The "worth at the time of award" of the amounts referred to in Sections 22.2(b)(i) and 22.2(b)(ii) shall be calculated by allowing interest at the lesser of twelve percent (12%) per annum or the maximum rate permitted by law, on the unpaid Rent and other sums due and payable from the termination date through the date of award. The "worth at the time of award" of the amount referred to in Section 22.2(b)(iii) shall be calculated by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other present or future law, if Tenant is evicted or Landlord takes possession of the Premises by reason of any Event of Default by Tenant.

22.3 If Landlord shall exercise any one or more remedies hereunder granted or otherwise available, it shall not be deemed to be an acceptance or surrender of the Premises by Tenant whether by agreement or by operation of law; it is understood that such surrender can be effected only by the written agreement of Landlord and Tenant. No alteration of security devices and no removal or other exercise of dominion by Landlord over the property of Tenant or others in the Premises shall be deemed unauthorized or constitute a conversion, Tenant hereby consenting to the aforesaid exercise of dominion over Tenant's property within the Premises after any Event of Default.

22.4 Each right and remedy provided for in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, including, but not limited to, suits for injunctive relief and specific performance. The exercise or beginning of the exercise by Landlord of any one or more of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity, or by statute or otherwise shall not preclude the simultaneous or later exercise by Landlord for any or all other rights or remedies provided for in this Lease or now or hereafter existing at or in equity or by statute or otherwise. All such rights and remedies shall be considered cumulative and non-exclusive. All costs incurred by Landlord in connection with collecting any Rent or other amounts and damages owing by Tenant pursuant to the provisions of this Lease, or to enforce any provision of this Lease, including reasonable attorneys' fees from the date such matter is turned over to an attorney, whether or not one or more actions are commenced by Landlord, shall also be recoverable by Landlord from Tenant. If any notice and grace period required under subparagraphs 22.1(a) or (b) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Tenant under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 22.1(a) or (b). In such case, the applicable grace period under subparagraphs 22.1(a) or (b) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Tenant to cure the default within the greater of the two (2) such grace periods shall constitute both an unlawful detainer and an Event of Default entitling Landlord to the remedies provided for in this Lease and/or by said statute.

22.5 If Tenant should fail to make any payment or cure any default hereunder within the time herein permitted and such failure constitutes an Event of Default (except in the

case where if Landlord in good faith believes that action prior to the expiration of any cure period under Section 22.1 is necessary to prevent damage to persons or property, in which case Landlord may act without waiting for such cure period to expire), Landlord, without being under any obligation to do so and without thereby waiving such default, may make such payment and/or remedy such default for the account of Tenant (and enter the Premises for such purpose), and thereupon, Tenant shall be obligated and hereby agrees to pay Landlord, upon demand, all reasonable costs, expenses, and disbursements, plus ten percent (10%) overhead cost incurred by Landlord in connection therewith.

22.6 In addition to Landlord's rights set forth above, if Tenant fails to pay its Rent or any other amounts owing hereunder on the due date thereof more than two (2) times during any calendar year during the Term, then upon the occurrence of the third or any subsequent default in the payment of monies during said calendar year, Landlord, at its sole option, shall have the right to require that Tenant, as a condition precedent to curing such default, pay to Landlord, in check or money order, in advance, the Rent and Landlord's estimate of all other amounts which will become due and owing hereunder by Tenant for a period of two (2) months following said cure. All such amounts shall be paid by Tenant within thirty (30) days after notice from Landlord demanding the same. All monies so paid shall be retained by Landlord, without interest, for the balance of the Term and any extension thereof, and shall be applied by Landlord to the last due amounts owing hereunder by Tenant. If, however, Landlord's estimate of the Rent and other amounts for which Tenant is responsible hereunder are inaccurate, when such error is discovered, Landlord shall pay to Tenant, or Tenant shall pay to Landlord, within thirty (30) days after written notice thereof, the excess or deficiency, as the case may be, which is required to reconcile the amount on deposit with Landlord with the actual amounts for which Tenant is responsible.

22.7 Nothing contained in this Section shall limit or prejudice the right of Landlord to prove and obtain as damages in any bankruptcy, insolvency, receivership, reorganization, or dissolution proceeding, an amount equal to the maximum allowed by any statute or rule of law governing such a proceeding and in effect at the time when such damages are to be proved, whether or not such amount be greater, equal, or less than the amounts recoverable, either as damages or Rent, referred to in any of the preceding provisions of this Article. Notwithstanding anything contained in this Article to the contrary, any such proceeding or action involving bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, or appointment of a receiver or trustee, as set forth above, shall be considered to be an Event of Default only when such proceeding, action, or remedy shall be taken or brought by or against the then holder of the leasehold estate under this Lease.

22.8 Landlord is entitled to accept, receive, in check or money order, and deposit any payment made by Tenant for any reason or purpose or in any amount whatsoever, and apply them at Landlord's option to any obligation of Tenant, and such amounts shall not constitute payment of any amount owed, except that to which Landlord has applied them. No endorsement or statement on any check or letter of Tenant shall be deemed an accord and satisfaction or recognized for any purpose whatsoever. The acceptance of any such check or payment shall be without prejudice to Landlord's rights to recover any and all amounts owed by Tenant hereunder and shall not be deemed to cure any other default nor prejudice Landlord's rights to pursue any other available remedy, Landlord's acceptance of partial payment of rent does not constitute a waiver of any rights, including without limitation any right Landlord may have to recover possession of the Premises.

22.9 Intentionally deleted.

22.10 Tenant waives the right to terminate this Lease on Landlord's default under this Lease. Tenant's sole remedy on Landlord's default is an action for damages or injunctive or declaratory relief. Landlord's failure to perform any of its obligations under this Lease shall constitute a default by Landlord under this Lease if the failure continues for thirty (30) days after written notice of the failure from Tenant to Landlord. If the required performance cannot be completed within thirty (30) days, Landlord's failure to perform shall constitute a default under the Lease unless Landlord undertakes to cure the failure within thirty (30) days and diligently and continuously attempts to complete this cure as soon as reasonably possible. All obligations of each party hereunder shall be construed as covenants, not conditions.

22.11 If Tenant provides written notice (or oral notice in the event of an emergency) to Landlord of an event or circumstance which requires the action of Landlord with respect to repair and/or maintenance, and Landlord fails to provide such action within a reasonable period of time, given the circumstances, after the receipt of such written notice, but in any event not later than thirty (30) days after receipt of such written notice, then Tenant may proceed to take the required action upon delivery of an additional seven (7) business days' written notice to Landlord specifying that Tenant is taking such required action (provided, however, that neither of the notices shall be required in the event of an emergency which threatens life or health or where there is imminent danger to property), and if such action was required under the terms of the Lease to be taken by Landlord, then Tenant shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in taking such action. In the event that Tenant takes such action, and such work will affect the Building structure and/or the Building systems, Tenant shall use only those contractors used by Landlord in the Building for work on such Building structure or Building systems unless such contractors are unwilling or unable to perform, or timely perform, such work, in which event Tenant may utilize the services of any other qualified contractor which normally and regularly performs similar work in Comparable Buildings. Any work undertaken by Tenant pursuant to this Section 22.11 shall be subject to the following:

(a) All such work shall be diligently pursued to completion and shall be conducted in a manner which does not interfere with the normal operations of the Building and other tenants of the Building.

(b) The work undertaken by the Tenant shall be the minimum amount of work reasonably necessary for Tenant to correct or cure the problem or failure of Landlord to act addressed by Tenant's notices pursuant to this Section 22.11.

ARTICLE 23. APPROVALS

23.1 Whenever this Lease grants Landlord or Tenant a right to take action, exercise discretion, or make an allocation, judgment or other determination (collectively, an

“Act”), Landlord or Tenant shall act reasonably and in good faith (meaning that no action shall be taken which would materially contravene the reasonable expectations of a sophisticated landlord operating a first-class office building and a sophisticated tenant in a first-class office building concerning the benefits and rights granted under this Lease but not contravening the plain and clear intent of the specific language of this Lease governing the specific issue in question), and shall not take any action which might result in the frustration of the reasonable expectations of a sophisticated landlord and a sophisticated tenant concerning the benefits to be enjoyed under this Lease, provided, however, that:

(a) Wherever this Lease elsewhere provides another standard which specifically defines or limits Landlord’s or Tenant’s discretion with respect to any Act, such other standard and not this Article 23 shall then control as to such Act;

(b) Nothing in this Article 23 shall require Landlord to consent to (i) any use of the Premises for purposes other than those permitted in Article 3, (ii) any alterations which would adversely affect the Building systems, any other Building occupant, or exterior of the Building, or (iii) any proposed assignment of or subletting under this Lease to which Landlord is not otherwise required to consent under Article 18;

(c) Except for an obligation to act in good faith, this Article 23 shall not apply to an election by Landlord or Tenant to terminate the Lease under Article 19 or Article 20 (but only if Landlord or Tenant (as applicable) strictly complies with the parameters for termination set forth in those Articles);

(d) This Article 23 shall not apply to an act taken by Landlord pursuant to Article 22 of the Lease; and

(e) Nothing contained in this Article 23 shall be deemed to limit the discretion of Landlord or Tenant with respect to any matter (including, without limitation, a proposal to amend or otherwise modify the Lease) which is not otherwise within the contemplation of the Lease.

ARTICLE 24.
INTENTIONALLY DELETED

ARTICLE 25.
ATTORNEYS’ FEES

25.1 All costs and expenses, including reasonable attorneys’ fees (whether or not legal proceedings are instituted), involved in collecting rents, enforcing the obligations of Tenant, or protecting the rights or interests of Landlord under this Lease, whether or not an action is filed, including without limitation the cost and expense of instituting and prosecuting legal proceedings or recovering possession of the Premises after default by Tenant or upon expiration or sooner termination of this Lease, shall be due and payable by Tenant on demand, as additional rent. In addition, and notwithstanding the foregoing, if either party hereto shall file any action or bring any proceeding against the other party arising out of this Lease or for the declaration of any rights hereunder, the prevailing party in such action shall be entitled to recover from the other party all costs and expenses, including reasonable attorneys’ fees incurred by the

prevailing party, as determined by the trier of fact in such legal proceeding. For purposes of this provision, the terms “attorneys’ fees” or “attorneys’ fees and costs,” or “costs and expenses” shall mean the fees and expenses of legal counsel (including external counsel and in-house counsel) of the parties hereto, which include printing, photocopying, duplicating, mail, overnight mail, messenger, court filing fees, costs of discovery, and fees billed for law clerks, paralegals, investigators and other persons not admitted to the bar for performing services under the supervision and direction of an attorney. For purposes of determining in-house counsel fees, the same shall be determined using the average per hour salary of such in-house counsel. In addition, the prevailing party shall be entitled to recover reasonable attorneys’ fees and costs incurred in enforcing any judgment arising from a suit or proceeding under this Lease, including without limitation post-judgment motions, contempt proceedings, garnishment, levy and debtor and third party examinations, discovery and bankruptcy litigation, without regard to schedule or rule of court purporting to restrict such award. This post-judgment award of attorneys’ fees and costs provision shall be severable from any other provision of this Lease and shall survive any judgment/award on such suit or arbitration and is not to be deemed merged into the judgment/award or terminated with the Lease.

ARTICLE 26.
NON-WAIVER

26.1 Neither acceptance of any payment by Landlord from Tenant nor, failure by either party to complain of any action, non-action, or default of the other party shall constitute a waiver of any of such party’s rights hereunder. Time is of the essence with respect to the performance of every obligation of each party under this Lease in which time of performance is a factor. Waiver by either party of any right or remedy arising in connection with any default of the other party shall not constitute a waiver of such right or remedy or any other right or remedy arising in connection with either a subsequent default of the same obligation or any other default. No right or remedy of either party hereunder or covenant, duty, or obligation of any party hereunder shall be deemed waived by the other party unless such waiver is in writing, signed by the other party or the other party’s duly authorized agent.

ARTICLE 27.
RULES AND REGULATIONS

27.1 Such reasonable rules and regulations applying to all lessees in the Project for the safety, care, and cleanliness of the Project and the preservation of good order thereon are hereby made a part hereof as Exhibit D, and Tenant agrees to comply with all such rules and regulations. Landlord shall have the right at all times to change such rules and regulations or to amend them in any reasonable and non-discriminatory manner as may be deemed advisable by Landlord, all of which changes and amendments shall be sent by Landlord to Tenant in writing and shall be thereafter carried out and observed by Tenant. Landlord shall not have any liability to Tenant for any failure of any other lessees of the Project to comply with such rules and regulations.

ARTICLE 28.
ASSIGNMENT BY LANDLORD

28.1 In the event Landlord sells the Building or the Project, Landlord shall have the right to transfer or assign, in whole or in part, all its rights and obligations hereunder and in the Premises and the Project to such purchaser. In such event, no liability or obligation shall accrue or be charged to Landlord with respect to the period from and after such transfer or assignment and assumption of Landlord's obligations by the transferee or assignee. Nothing in Section 28.1 shall limit Landlord's right to assign this Lease as collateral for any loan.

ARTICLE 29.
LIABILITY OF LANDLORD

29.1 It is expressly understood and agreed that the obligations of Landlord under this Lease shall be binding upon Landlord and its successors and assigns and any future owner of the Project only with respect to events occurring during its and their respective ownership of the Project and the proceeds from the sale thereof. In addition, Tenant agrees to look solely to Landlord's interest in the Project for recovery of any judgment against Landlord arising in connection with this Lease, it being agreed that neither Landlord nor any successor or assign of Landlord nor any future owner of the Project, nor any partner, shareholder, or officer of any of the foregoing shall ever be personally liable for any such judgment.

ARTICLE 30.
SUBORDINATION AND ATTORNMENT

30.1 This Lease, at Landlord's option, shall be subordinate to any present or future: mortgage, ground lease or declaration of covenants regarding maintenance and use of any areas contained in any portion of the Building, and to any and all advances made under any present or future mortgage and to all renewals, modifications, consolidations, replacements, and extensions of any or all of same. Tenant agrees, with respect to any of the foregoing documents, that no documentation other than this Lease shall be required to evidence such subordination. If any holder of a mortgage shall elect for this Lease to be superior to the lien of its mortgage and shall give written notice thereof to Tenant, then this Lease shall automatically be deemed prior to such mortgage whether this Lease is dated earlier or later than the date of said mortgage or the date of recording thereof. Tenant agrees to execute such reasonable documents as may be further required to evidence such subordination or to make this Lease prior to the lien of any mortgage or deed of trust, as the case may be. Tenant hereby attorns to all successor owners of the Building, whether or not such ownership is acquired as a result of a sale through foreclosure or otherwise. As of the date of this Lease, there is no (a) deed of trust or mortgage encumbering the Project or (b) ground lease affecting the Building.

30.2 Each party shall, at such time or times as the other party may request, upon not less than ten (10) days' prior written request by the requesting party, sign and deliver to the requesting party a certificate stating whether this Lease is in full force and effect; whether any amendments or modifications exist; whether any Monthly Rent has been prepaid and, if so, how much; whether to the knowledge of the certifying party there are any defaults hereunder; and in the circumstance where Landlord is the requesting party, such other information and

agreements as may be reasonably requested, it being intended that any such statement delivered pursuant to this Article may be relied upon by the requesting party and by any prospective purchaser of all or any portion of the requesting party's interest herein, any lender or prospective lender of Tenant, or a holder or prospective holder of any mortgage encumbering the Building. Tenant's failure to deliver such statement within five (5) days after Landlord's second written request therefor shall constitute an Event of Default (as that term is defined elsewhere in this Lease) and shall conclusively be deemed to be an admission by Tenant of the matters set forth in the request for an estoppel certificate.

30.3 Tenant shall deliver to Landlord on the Commencement Date and upon Landlord's request no more than one (1) time per calendar year (except in connection with a sale or financing) Tenant's current audited financial statements, including a balance sheet and profit and loss statement for the most recent prior year (collectively, the "Statements"), which Statements shall accurately and completely reflect the financial condition of Tenant. Landlord shall use reasonable efforts to keep such Statements strictly confidential, except that Landlord shall have the right to deliver the same to any proposed purchaser of the Building or the Project and to any encumbrancer of all or any portion of the Building or the Project so long as any purchaser or encumbrancer agrees not to disclose the contents of any such statements to any third party other than its employees, agents and consultants.

30.4 Tenant acknowledges the Landlord is relying on the Statements provided to Landlord on or about the date of this Lease in its determination to enter into this Lease, and Tenant represents to Landlord, which representation shall be deemed made on the date of this Lease, that no material change in the financial condition of Tenant, as reflected in the Statements, has occurred since the date Tenant delivered the Statements to Landlord. The Statements are represented and warranted by Tenant to be correct and to accurately and fully reflect Tenant's true financial condition as of the date of submission of any Statements to Landlord.

30.5 As a condition to Tenant's subordination and attornment obligations as set forth in Section 30.1, above, Landlord agrees to deliver to Tenant from any future mortgagee or beneficiary a written subordination and non-disturbance agreement in recordable form acceptable to such mortgagee or beneficiary providing that so long as Tenant performs all of the terms of this Lease, Tenant's possession under this Lease shall not be disturbed and Tenant shall not be joined by the holder of any mortgage or deed of trust in any action or proceeding to foreclose thereunder, except where such is necessary for jurisdictional or procedural reasons.

ARTICLE 31.
HOLDING OVER

31.1 In the event Tenant, or any party claiming under Tenant, retains possession of the Premises after the Expiration Date or Termination Date, such possession shall be that of a holdover tenant and an unlawful detainer. No tenancy or interest shall result from such possession, and such parties shall be subject to immediate eviction and removal. Tenant or any such party shall pay Landlord, as Base Rent for the period of such holdover, an amount equal to the Holdover Percentage (as defined below) of the Base Rent otherwise provided for herein, during the time of holdover together with all other Additional Rent and other amounts

payable pursuant to the terms of this Lease. Tenant shall also be liable for any and all damages sustained by Landlord as a result of such holdover. As used herein, the term "Holdover Percentage" means 125% with respect to the first three months of the holdover and 150% with respect to any holding over in excess of three months. Tenant shall vacate the Premises and deliver same to Landlord immediately upon Tenant's receipt of notice from Landlord to so vacate. The Rent during such holdover period shall be payable to Landlord on demand. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend the term of this Lease.

ARTICLE 32.
SIGNS

32.1 No sign, symbol, or identifying marks shall be put upon the Project, Building, in the halls, elevators, staircases, entrances, parking areas, or upon the doors or walls, without the prior written approval of Landlord. Should such approval ever be granted, all signs or lettering shall conform in all respects to the sign and/or lettering criteria established by Landlord. Landlord, at Landlord's sole cost and expense, reserves the right to change the door plaques as Landlord deems reasonably desirable.

32.2 Tenant shall be entitled to the existing monument signage (the "Monument Signage") on the Building monument sign identifying Tenant's name. At the expiration or earlier termination of this Lease or termination of Tenant's sign rights as provided below, Landlord shall, at Tenant's sole cost and expense, cause the Monument Signage to be removed and the area of the monument sign affected by the Monument Signage to be restored to the condition existing prior to the installation of Tenant's Monument Signage.

32.3 Landlord at Landlord's sole cost shall install one (1) Building suite sign on the first floor. Tenant, at Tenant's sole cost, shall have the right to maintain the existing second building suite sign on the second floor of the Premises ("Second Floor Sign"). Tenant shall be solely responsible for maintaining the Second Floor Sign. At the expiration or earlier termination of this Lease, Landlord shall, at Tenant's sole cost and expense, cause the Second Floor Sign to be removed and the area of the walls affected by the Second Floor Sign to be restored to the condition existing prior to the installation of the Second Floor Sign.

ARTICLE 33.
HAZARDOUS SUBSTANCES

33.1 Except for Hazardous Material (as defined below) contained in products used by Tenant for ordinary cleaning and office purposes in quantities not violative of applicable Environmental Requirements, Tenant shall not permit or cause any party to bring any Hazardous Material upon the Premises and/or the Project or transport, store, use, generate, manufacture, dispose, or release any Hazardous Material on or from the Premises and/or the Project without Landlord's prior written consent (except for ordinary office and janitorial products stored in their original containers used in compliance with Environmental Requirements). Tenant, at its sole cost and expense, shall operate its business in the Premises in strict compliance with all Environmental Requirements (as defined below) and all requirements of this Lease. Tenant shall complete and certify to disclosure statements as requested by Landlord from time to time relating

to Tenant's transportation, storage, use, generation, manufacture, or release of Hazardous Materials on the Premises, and Tenant shall promptly deliver to Landlord a copy of any notice of violation relating to the Premises or the Project of any Environmental Requirement.

33.2 The term "Environmental Requirements" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, permits, authorizations, orders, policies or other similar requirements of any governmental authority, agency or court regulating or relating to health, safety, or environmental conditions on, under, or about the Premises or the environment, including without limitation, the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Toxic Substances Control Act and all state and local counterparts thereto; all applicable California requirements, including, but not limited to, Sections 25115, 25117, 25122.7, 25140, 25249.8, 25281, 25316 and 25501 of the California Health and Safety Code and Title 22 of the California Code of Regulations, Division 4.5, Chapter 11, and any policies or rules promulgated thereunder as well as any County or City ordinances that may operate independent of, or in conjunction with, the State programs, and any common or civil law obligations including, without limitation, nuisance or trespass, and any other requirements of Article 3 of this Lease. The term "Hazardous Materials" means and includes any substance, material, waste, pollutant, or contaminant that is or could be regulated under any Environmental Requirement or that may adversely affect human health or the environment, including, without limitation, any solid or hazardous waste, hazardous substance, asbestos, petroleum (including crude oil or any fraction thereof, natural gas, synthetic gas, polychlorinated biphenyls (PCBs), and radioactive material). For purposes of Environmental Requirements, to the extent authorized by law, Tenant is and shall be deemed to be the "owner" of all Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors or invitees, and the wastes, by-products, or residues generated, resulting, or produced therefrom.

33.3 Tenant, at its sole cost and expense, shall remove all Hazardous Materials stored, disposed of or otherwise released by Tenant, its assignees, subtenants, agents, employees, contractors or invitees onto or from the Premises, in a manner and to a level satisfactory to Landlord in its sole discretion, but in no event to a level and in a manner less than that which complies with all Environmental Requirements and does not limit any future uses of the Premises or require the recording of any deed restriction or notice regarding the Premises. Tenant shall perform such work at any time during the period of the Lease upon written request by Landlord or, in the absence of a specific request by Landlord, before Tenant's right to possession of the Premises terminates or expires. If Tenant fails to perform such work within the time period specified by Landlord or before Tenant's right to possession terminates or expires (whichever is earlier), Landlord may at its discretion, and without waiving any other remedy available under this Lease or at law or equity (including without limitation an action to compel Tenant to perform such work), perform such work at Tenant's cost. Tenant shall pay all costs incurred by Landlord in performing such work within ten (10) days after Landlord's request therefor. Such work performed by Landlord is on behalf of Tenant and Tenant remains the owner, generator, operator, transporter, and/or arranger of such Hazardous Materials released by Tenant, its assignees, subtenants, agents, employees, contractors or invitees for purposes of Environmental Requirements. Tenant agrees not to enter into any agreement with any person, including without limitation any governmental authority, regarding the removal of Hazardous Materials that have been disposed of or otherwise released onto or from the Premises without the written approval of the Landlord.

33.4 Tenant shall indemnify, defend, and hold Landlord harmless from and against any and all losses (including, without limitation, diminution in value of the Premises or the Project and loss of rental income from the Project), claims, demands, actions, suits, damages (including, without limitation, punitive damages), expenses (including, without limitation, remediation, removal, repair, corrective action, or cleanup expenses), and costs (including, without limitation, actual attorneys' fees, consultant fees or expert fees and including, without limitation, removal or management of any asbestos brought into the Premises by Tenant, its assignees, subtenants, agents, employees, contractors or invitees, regardless of whether such removal or management is required by law) which are brought or recoverable against, or suffered or incurred by Landlord as a result of any release of Hazardous Materials by Tenant, its agents, employees, contractors, subtenants, assignees or invitees or any breach of the requirements under this Article 33 by Tenant, its agents, employees, contractors, subtenants, assignees or invitees, regardless of whether Tenant had knowledge of such noncompliance. The obligations of Tenant under this Article 33 shall survive any termination of this Lease.

33.5 Landlord shall have access to, and a right to perform inspections and tests of, the Premises to determine Tenant's compliance with Environmental Requirements, its obligations under this Article 33, or the environmental condition of the Premises. Access shall be granted to Landlord upon Landlord's prior notice to Tenant and at such times so as to minimize, so far as may be reasonable under the circumstances, any disturbance to Tenant's operations. Such inspections and tests shall be conducted at Landlord's expense, unless such inspections or tests reveal that Tenant has not complied with any Environmental Requirement with respect to Tenant's use of Hazardous Materials on the Premises, in which case Tenant shall reimburse Landlord for the reasonable cost of such inspection and tests. Landlord's receipt of or satisfaction with any environmental assessment in no way waives any rights that Landlord holds against Tenant. Tenant shall promptly notify Landlord of any communication or report that Tenant makes to any governmental authority regarding any possible violation of Environmental Requirements or release or threat of release of any Hazardous Materials onto or from the Premises. Tenant shall, within five (5) days of receipt thereof, provide Landlord with a copy of any documents or correspondence received from any governmental agency or other party relating to a possible violation of Environmental Requirements or claim or liability associated with the release or threat of release of any Hazardous Materials onto or from the Premises.

33.6 In addition to all other rights and remedies available to Landlord under this Lease or otherwise, Landlord may, in the event of a breach by Tenant or its agents, employees, contractors, subtenants, assignees or invitees of the requirements of this Article 33 that is not cured within thirty (30) days following notice of such breach by Landlord, require Tenant to provide financial assurance (such as insurance, escrow of funds or third party guarantee) in an amount and form satisfactory to Landlord. The requirements of this Article 33 are in addition to and not in lieu of any other provision in the Lease.

33.7 Landlord hereby informs Tenant, and Tenant hereby acknowledges, that the Premises and adjacent properties overlie a former solid waste landfill site commonly known as the Westport Landfill ("Former Landfill"). Landlord further informs Tenant, and Tenant

hereby acknowledges, that (i) prior testing has detected the presence of low levels of certain volatile and semi-volatile organic compounds and other contaminants in the groundwater, in the leachate from the landfilled solid waste, and/or in certain surface waters of the Property, as more fully described in the California Regional Water Quality Control Board, San Francisco Bay Region's ("Regional Board") Order No. R2-2003-0074 (Updated Waste Discharge Requirements and Rescission of Order No. 94-181) ("Order"), (ii) methane gas is or may be generated by the landfilled solid waste (item "i" immediately preceding and this item "ii" are hereafter collectively referred to as the "Landfill Contamination"), and (iii) the Premises and the Former Landfill are subject to the Order. The Order is attached hereto as Exhibit H. As evidenced by their initials on said Exhibit H, Tenant acknowledges that Landlord has provided Tenant with copies of the Order, and Tenant acknowledges that Tenant and Tenant's experts (if any) have had ample opportunity to review the Order and that Tenant has satisfied itself as to the environmental conditions of the Property and the suitability of such conditions for Tenant's intended use of the Property. Additional environmental reports are available for Tenant's review at Landlord's offices. To Landlord's actual knowledge (without duty of inquiry), there is no other on-site originated Hazardous Materials contamination within the Project. In the event the Regional Board determines that the majority of the Premises cannot be occupied for a period in excess of thirty (30) days due to the any Hazardous Materials conditions related to the Landfill Contamination, then, provided Tenant has not caused and/or contributed to the incident responsible for said occupancy restriction, Tenant may terminate this Lease provided Tenant gives Landlord written notice within five (5) days of Tenant's receipt of notice that the Premises cannot be occupied for the purpose referenced in this Lease of its election to so terminate the Lease in the event Tenant cannot occupy the majority of the Premises at the conclusion of the thirty (30) day period. In the event said notice is received by Landlord as required herein and the majority of the Premises cannot be occupied as referenced above, this Lease shall thereafter terminate on the date of termination referenced in said Tenant notice (which date shall not be less than thirty (30) days from the date the Premises are deemed un-occupiable).

33.8 Notwithstanding anything to the contrary in the Lease, under no circumstance shall Tenant be liable for any Hazardous Material present at any time on or about the Project, or the soil, air, improvements, groundwater or surface water thereof, or the violation of any laws, orders or regulations, relating to any such Hazardous Material, except to the extent that any of the foregoing actually results from the release or emission of such Hazardous Material by Tenant or its agents, employees, contractors, subtenants, assignees or invitees.

ARTICLE 34.
COMPLIANCE WITH LAWS AND OTHER REGULATIONS

34.1 Tenant, as its sole cost and expense, shall promptly comply with all laws, statutes, ordinances, and governmental rules, regulations, or requirements now in force or which may hereafter become in force, of federal, state, county, and municipal authorities, including, but not limited to, the Americans with Disabilities Act, with the requirements of any board of fire underwriters or other similar body now or hereafter constituted, and with any occupancy certificate issued pursuant to any law by any public officer or officers, which impose, any duty upon Landlord or Tenant, insofar as any thereof relate to or affect the condition, use, alteration, or occupancy of the Premises. Landlord's approval of Tenant's plans for any improvements shall create no responsibility or liability on the part of Landlord for their completeness, design

sufficiency, or compliance with all laws, rules, and regulations of governmental agencies or authorities, including, but not limited to, the Americans with Disabilities Act. Notwithstanding the foregoing, Tenant shall not be required to comply with or cause the Premises to comply with any laws, rules or regulations requiring alterations or improvements unless the compliance with any of the foregoing is necessitated due to one or more of the following events or circumstances:

- (a) Tenant's particular use of the Premises (other than normal office uses);
- (b) The manner of conduct of Tenant's business or operation of its installations, equipment or other property outside those of normal office use;
- (c) The performance by or on behalf of Tenant of any alterations (except for the Tenant Improvements) or the installation of any Tenant systems; or
- (d) The breach of any of Tenant's obligations under this Lease.

ARTICLE 35.
SEVERABILITY

35.1 This Lease shall be construed in accordance with the laws of the State of California. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws effective during the Term, then it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby. It is also the intention of both parties that in lieu of each clause or provision that is illegal, or unenforceable, there is added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and still be legal, valid, and enforceable.

ARTICLE 36.
NOTICES

36.1 Whenever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other, such notice or demand shall be given or served in writing and delivered personally, or forwarded by certified or registered mail, postage prepaid, or recognized overnight courier, addressed as follows:

If to Landlord: c/o The Prudential Insurance Company of America
8 Campus Drive, 4th Floor
Parsippany, New Jersey 07054
Attention: Mr. Darin Bright

With a copy by the same method to:

c/o The Prudential Insurance Company of America
8 Campus Drive, 4th Floor
Parsippany, New Jersey 07054
Attention: Greg Shanklin, Esquire

With a copy by the same method to:

Harvest Properties, Inc.
2200 Powell Street, Suite 210
Emeryville, California 94608
Attn: Awais Mughal

If to Tenant: Qualys, Inc.
1600 Bridge Parkway
Redwood Shores, California 94065
Attention: Chief Financial Officer

36.2 Notice hereunder shall become effective upon (a) delivery in case of personal delivery and (b) receipt or refusal in case of certified or registered mail or delivery by overnight courier.

36.3 Such address may be changed from time to time by either party serving notice as provided above.

ARTICLE 37.
OBLIGATIONS OF, SUCCESSORS, PLURALITY, GENDER

37.1 Landlord and Tenant agree that all the provisions hereof are to be construed as covenants and agreements as though the words imparting such covenants were used in each paragraph hereof, and that, except as restricted by the provisions hereof, shall bind and inure to the benefit of the parties hereto, their respective heirs, legal representatives, successors, and assigns. If the rights of Tenant hereunder are owned by two or more parties, or two or more parties are designated herein as Tenant, then all such parties shall be jointly and severally liable for the obligations of Tenant hereunder. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the other.

ARTICLE 38.
ENTIRE AGREEMENT

38.1 This Lease and any attached addenda or exhibits constitute the entire agreement between Landlord and Tenant. No prior or contemporaneous written or oral leases or representations shall be binding. This Lease shall not be amended, changed, or extended except by written instrument signed by Landlord and Tenant.

38.2 THE SUBMISSION OF THIS LEASE BY LANDLORD, ITS AGENT OR REPRESENTATIVE FOR EXAMINATION OR EXECUTION BY TENANT DOES NOT CONSTITUTE AN OPTION OR OFFER TO LEASE THE PREMISES UPON THE TERMS AND CONDITIONS CONTAINED HEREIN OR A RESERVATION OF THE PREMISES IN FAVOR OF TENANT, IT BEING INTENDED HEREBY THAT THIS LEASE SHALL ONLY BECOME EFFECTIVE UPON THE EXECUTION AND DELIVERY HEREOF BY LANDLORD AND TENANT.

ARTICLE 39.
CAPTIONS

39.1 Paragraph captions are for Landlord's and Tenant's convenience only, and neither limit nor amplify the provisions of this Lease.

ARTICLE 40.
CHANGES

40.1 Should any mortgagee require a modification of this Lease, which modification will not bring about any increased cost or expense to Tenant or in any other way substantially and adversely change the rights and obligations of Tenant hereunder, then and in such event Tenant agrees that this Lease may be so modified.

ARTICLE 41.
AUTHORITY

41.1 All rights and remedies of Landlord under this Lease, or those which may be provided by law, may be exercised by Landlord in its own name individually, or in its name by its agent, and all legal proceedings for the enforcement of any such rights or remedies, including distress for Rent, unlawful detainer, and any other legal or equitable proceedings may be commenced and prosecuted to final judgment and be executed by Landlord in its own name individually or in its name by its agent. Landlord and Tenant each represent to the other that each has full power and authority to execute this Lease and to make and perform the agreements herein contained, and Tenant expressly stipulates that any rights or remedies available to Landlord, either by the provisions of this Lease or otherwise, may be enforced by Landlord in its own name individually or in its name by its agent or principal.

ARTICLE 42.
BROKERAGE

42.1 Tenant represents and warrants to Landlord that it has dealt only with Colliers International (collectively "Tenant's Broker") and NAI BT Commercial Real Estate (the "Landlord's Broker"), in negotiation of this Lease. Landlord shall make payment of the brokerage fee due the Landlord's Broker pursuant to and in accordance with a separate agreement between Landlord and Landlord's Broker. Landlord's Broker shall pay a portion of its commission to Tenant's Broker pursuant to a separate agreement between Landlord's Broker and Tenant's Broker. Except for amounts owing to Landlord's Broker and Tenant's Broker, each party hereby agrees to indemnify and hold the other party harmless of and from any and all damages, losses, costs, or expenses (including, without limitation, all attorneys' fees and disbursements) by reason of any claim of or liability to any other broker or other person claiming through the indemnifying party and arising out of or in connection with the negotiation, execution, and delivery of this Lease. Additionally, except as may be otherwise expressly agreed upon by Landlord in writing, Tenant acknowledges and agrees that Landlord and/or Landlord's agent shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may in the future deal with respect to leasing of any additional or expansion space in the Building or renewals or extensions of this Lease.

ARTICLE 43.
EXHIBITS

43.1 Exhibits A through I are attached hereto and incorporated herein for all purposes and are hereby acknowledged by both parties to this Lease.

ARTICLE 44.
APPURTENANCES

44.1 The Premises include the right of ingress and egress thereto and therefrom; however, Landlord reserves the right to make changes and alterations to the Building, fixtures and equipment thereof, in the street entrances, doors, halls, corridors, lobbies, passages, elevators, escalators, stairways, toilets and other parts thereof which Landlord may deem necessary or desirable; provided that Tenant at all times has a means of access to the Premises (subject to a temporary interruption due to Force Majeure Events or necessary maintenance that cannot reasonably be performed without such interruption of access). Neither this Lease nor any use by Tenant of the Building or any passage, door, tunnel, concourse, plaza or any other area connecting the garages or other buildings with the Building, shall give Tenant any right or easement of such use and the use thereof may, without notice to Tenant, be regulated or discontinued at any time and from time to time by Landlord without liability of any kind to Tenant and without affecting the obligations of Tenant under this Lease.

ARTICLE 45.
PREJUDGMENT REMEDY, REDEMPTION, COUNTERCLAIM, AND JURY

45.1 If Landlord shall acquire possession of the Premises by summary proceedings, or in any other lawful manner without judicial proceedings, it shall be deemed a reentry within the meaning of that word as used in this Lease. In the event that Landlord commences any summary proceedings or action for nonpayment of rent or other charges provided for in this Lease, Tenant shall not interpose any counterclaim of any nature or description in any such proceeding or action other than mandatory counterclaims. Tenant and Landlord both waive a trial by jury of any or all issues arising in any action or proceeding between the parties hereto or their successors, under or connected with this Lease, or any of its provisions.

ARTICLE 46.
RECORDING

46.1 Tenant shall not record this Lease but will, at the request of Landlord, execute a memorandum or notice thereof in recordable form satisfactory to both Landlord and Tenant specifying the date of commencement and expiration of the Term of this Lease and other information required by statute. Either Landlord or Tenant may then record said memorandum or notice of lease at the cost of the recording party.

ARTICLE 47.
MORTGAGEE PROTECTION

47.1 Tenant agrees to give any mortgagees and/or trust deed holders, by registered mail, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified, in writing of the address of such mortgagees and/or trust deed holders. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the mortgagees and/or trust deed holders shall have an additional thirty (30) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure) in which event this Lease shall not be terminated as a result of such default while such remedies are being so diligently pursued.

ARTICLE 48.
SHORING

48.1 If any excavation or construction is made adjacent to, upon or within the Building, or any part thereof, Tenant shall afford to any and all persons causing or authorized to cause such excavation or construction reasonable license to enter upon the Premises for the purpose of doing such work as such persons shall deem necessary to preserve the Building or any portion thereof from injury or damage and to support the same by proper foundations, braces and supports, without any claim for damages or indemnity or abatement of rent (subject to the express provisions of this Lease), or of a constructive or actual eviction of Tenant.

ARTICLE 49.
PARKING

49.1 The use by Tenant, its employees and invitees, of the parking facilities of the Project shall be on the terms and conditions set forth in Exhibit E attached hereto and by this reference incorporated herein and shall be subject to such other agreement between Landlord and Tenant as may hereinafter be established and to such other reasonable rules and regulations as Landlord may establish. Tenant, its employees and invitees shall have the right to use 3.3 non-exclusive parking spaces per one thousand (1,000) square feet of leased space. Tenant's use of the parking spaces shall be confined to the Project. If, in Landlord's reasonable business judgment, it becomes necessary, Landlord shall exercise due diligence to cause the creation of cross-parking easements and such other agreements as are necessary to permit Tenant, its employees and invitees to use parking spaces on properties and buildings which are separate legal parcels from the Project. Tenant acknowledges that other tenants of the Project and the tenants of the other buildings, their employees and invitees, may be given the right to park at the Project.

ARTICLE 50.
ELECTRICAL CAPACITY

50.1 The Tenant covenants and agrees that at all times, its use of electric energy shall never exceed the capacity of the existing feeders to the Building or the risers of wiring

installation. Any riser or risers to supply the Tenant's electrical requirements upon written request of the Tenant shall be installed by the Landlord at the sole cost and expense of the Tenant, if, in the Landlord's sole judgment, the same are necessary and will not cause or create a dangerous or hazardous condition or entail excess or unreasonable alterations, repairs or expense or interfere with or disrupt other tenants or occupants. In addition to the installation of such riser or risers, the Landlord will also, at the sole cost and expense of Tenant, install all other equipment proper and necessary in connection therewith subject to the aforesaid terms and conditions.

ARTICLE 51.
OPTIONS TO EXTEND LEASE

51.1 Extension Option. Tenant shall have the option to extend this Lease (the "Extension Option") for one additional term of five (5) years (the "Extension Period"), upon the terms and conditions hereinafter set forth:

(a) If the Extension Option is exercised, then the Base Rent per annum for such Extension Period (the "Option Rent") shall be an amount equal to the Fair Market Rental Value (as defined hereinafter) for the Premises as of the commencement of the Extension Option for such Extension Period; provided, however, that the Option Rent shall in no event be less than the Base Rent scheduled to be paid during the year immediately prior to the commencement of the Extension Period.

(b) The Extension Option must be exercised by Tenant, if at all, only at the time and in the manner provided in this subsection 51.1(b).

(i) If Tenant wishes to exercise the Extension Option, Tenant must, on or before the date occurring nine (9) months before the expiration of the initial Lease Term (but not before the date that is twelve (12) months before the expiration of the Initial Lease Term), exercise the Extension Option by delivering written notice (the "Exercise Notice") to Landlord. If Tenant timely and properly exercises its Extension Option, the Lease Term shall be extended for the Extension Period upon all of the terms and conditions set forth in the Lease, as amended, except that the Base Rent for the Extension Period shall be as provided in Subparagraph 51.1(a) and Tenant shall have no further options to extend the Lease Term.

(ii) If Tenant fails to deliver a timely Exercise Notice, Tenant shall be considered to have elected not to exercise the Extension Option.

(c) It is understood and agreed that the Extension Option hereby granted is personal to Tenant and its Permitted Transferees, and is not transferable other than to a Permitted Transferee.

(d) Tenant's exercise of the Extension Option shall, if Landlord so elects in its absolute discretion, be ineffective in the event that an Event of Default by Tenant remains uncured at the time of delivery of the Exercise Notice or at the commencement of the Extension Period.

51.2 Fair Market Rental Value. The provisions of this Section shall apply in any instance in which this Lease provides that the Fair Market Rental Value is to apply.

(a) "Fair Market Rental Value" means the annual amount per square foot that a willing tenant would pay and a willing landlord would accept in arm's length negotiations, without any additional inducements, for a lease of the applicable space on the applicable terms and conditions for the applicable period of time. Fair Market Rental Value shall be determined by Landlord considering the most recent new direct leases (and market renewals and extensions, if applicable) in the Building and in Comparable Buildings in the Market Area.

(b) In determining the rental rate of comparable space, the parties shall include all escalations and take into consideration the following concessions:

(i) Rental abatement concessions, if any, being granted to tenants in connection with the comparable space;

(ii) Tenant improvements or allowances provided or to be provided for the comparable space, taking into account the value of the existing improvements in the Premises, based on the age, quality, and layout of the improvements.

(c) If in determining the Fair Market Rental Value the parties determine that the economic terms of leases of comparable space include a tenant improvement allowance, Landlord may, at Landlord's sole option, elect to do the following:

(i) Grant some or all of the value of the tenant improvement allowance as an allowance for the refurbishment of the Premises; and

(ii) Reduce the Base Rent component of the Fair Market Rental Value to be an effective rental rate that takes into consideration the total dollar value of that portion of the tenant improvement allowance that Landlord has elected not to grant to Tenant (in which case that portion of the tenant improvement allowance evidenced in the effective rental rate shall not be granted to Tenant).

51.3 Determination of Fair Market Rental Value. The determination of Fair Market Rental Value shall be as provided in this Section 51.3.

(a) Negotiated Agreement. Landlord and Tenant shall diligently attempt in good faith to agree on the Fair Market Rental Value on or before the tenth (10th) day after Tenant's exercise of the Extension Option (the "Outside Agreement Date"). If Landlord and Tenant fail to reach agreement on or before the Outside Agreement Date, then Tenant shall elect either to rescind its exercise of the Extension Option or elect to have the Fair Market Rental Value determined by arbitration. The failure by Tenant to make either election within ten (10) days following the Outside Agreement Date shall be deemed an election to have the Fair Market Rental Value determined by arbitration.

(b) Parties' Separate Determinations. If Landlord and Tenant fail to reach agreement on or before the Outside Agreement Date and Tenant elects or deems to have elected to have the Fair Market Rental Value determined by arbitration, Landlord and Tenant

shall each make a separate determination of the Fair Market Rental Value and notify the other party of this determination within five (5) days after the date Tenant elects or is deemed to have elected to have the Fair Market Rental Value determined by arbitration.

(i) Two Determinations. If each party makes a timely determination of the Fair Market Rental Value, those determinations shall be submitted to arbitration in accordance with subsection (c).

(ii) One Determination. If Landlord or Tenant fails to make a determination of the Fair Market Rental Value within the five-day period, that failure shall be conclusively considered to be that party's approval of the Fair Market Rental Value submitted within the five-day period by the other party.

(c) Arbitration. If both parties make timely individual determinations of the Fair Market Rental Value under subsection (b), the Fair Market Rental Value shall be determined by arbitration under this subsection (c).

(i) Scope of Arbitration. The determination of the arbitrators shall be limited to the sole issue of whether Landlord's or Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value as determined by the arbitrators, taking into account the requirements of Section 51.2.

(ii) Qualifications of Arbitrator(s). The arbitrators must be licensed real estate brokers who have been active in the leasing of commercial multi-story properties in the Market Area over the five-year period ending on the date of their appointment as arbitrator(s).

(iii) Parties' Appointment of Arbitrators. Within fifteen (15) days after the Outside Agreement Date, Landlord and Tenant shall each appoint one arbitrator and notify the other party of the arbitrator's name and business address.

(iv) Appointment of Third Arbitrator. If each party timely appoints an arbitrator, the two (2) arbitrators shall, within ten (10) days after the appointment of the second arbitrator, agree on and appoint a third arbitrator (who shall be qualified under the same criteria set forth above for qualification of the initial two (2) arbitrators) and provide notice to Landlord and Tenant of the arbitrator's name and business address.

(v) Arbitrators' Decision. Within thirty (30) days after the appointment of the third arbitrator, the three (3) arbitrators shall decide whether the parties will use Landlord's or Tenant's submitted Fair Market Rental Value and shall notify Landlord and Tenant of their decision. The decision of the majority the three (3) arbitrators shall be binding on Landlord and Tenant.

(vi) If Only One Arbitrator is Appointed. If either Landlord or Tenant fails to appoint an arbitrator within fifteen (15) days after the Outside Agreement Date, the arbitrator timely appointed by one of them shall reach a decision and notify Landlord and Tenant of that decision within thirty (30) days after the arbitrator's appointment. The arbitrator's decision shall be binding on Landlord and Tenant.

(vii) If Only Two Arbitrators Are Appointed. If each party appoints an arbitrator in a timely manner, but the two (2) arbitrators fail to agree on and appoint a third arbitrator within the required period, the arbitrators shall be dismissed without delay and the issue of Fair Market Rental Value shall be submitted to binding arbitration under the real estate arbitration rules of JAMS, subject to the provisions of this section.

(viii) If No Arbitrator Is Appointed. If Landlord and Tenant each fail to appoint an arbitrator in a timely manner, the matter to be decided shall be submitted without delay to binding arbitration under the real estate arbitration rules of JAMS subject the provisions of this Section 51.3(c).

51.4 Cost of Arbitration. The cost of the arbitration shall be paid by the losing party.

ARTICLE 52.
TELECOMMUNICATIONS LINES AND EQUIPMENT

52.1 Location of Tenant's Equipment and Landlord Consent:

52.1.1 Tenant may install, maintain, replace, remove and use communications or computer wires, cables and related devices (collectively, the "Lines") at the Building in or serving the Premises only with Landlord's prior written consent, which consent may not be unreasonably withheld. Tenant shall locate all electronic telecommunications equipment within the Premises and shall coordinate the location of all Lines with Landlord. Any request for consent shall contain such information as Landlord may request.

52.1.2 Landlord's approval of, or requirements concerning, the Lines or any equipment related thereto, the plans, specifications or designs related thereto, the contractor or subcontractor, or the work performed hereunder, shall not be deemed a warranty as to the adequacy or appropriateness thereof, and Landlord hereby disclaims any responsibility or liability for the same.

52.1.3 If Landlord consents to Tenant's proposal, Tenant shall pay all of Tenant's and Landlord's reasonable third party costs in connection therewith (including without limitation all costs related to new Lines) and shall use, maintain and operate the Lines and related equipment in accordance with and subject to all laws governing the Lines and equipment and at Tenant's sole risk and expense. Tenant shall comply with all of the requirements of this Lease concerning alterations in connection with installing the Lines. As soon as the work is completed, Tenant shall submit as-built drawings to Landlord.

52.1.4 Landlord reserves the right to require that Tenant remove any Lines installed by Tenant located in or serving the Premises which are installed in violation of these provisions, or which are at any time in violation of any laws or present a dangerous or potentially dangerous condition, within three days after written notice. Otherwise, Tenant may surrender any Lines located in or serving the Premises at the expiration or earlier termination of the Lease.

52.2 Reallocation of Line Space. Landlord may (but shall not have the obligation to) (a) install and relocate Lines at the Building; and (b) monitor and control the installation, maintenance, replacement and removal of, the allocation and periodic re-allocation of available space (if any) for, and the allocation of excess capacity (if any) on, any Lines now or hereafter installed at the Building by Landlord, Tenant or any other party.

52.3 Line Problems: Except to the extent arising from the gross negligence or willful misconduct of Landlord or Landlord's contractors, agents or employees, Landlord shall have no liability for damages arising from, and Landlord does not warrant that the Tenant's use of any Lines will be free from the following (collectively called "Line Problems"): (a) any shortages, failures, variations, interruptions, disconnections, loss or damage caused by the installation, maintenance, or replacement, use or removal of Lines by or for other tenants or occupants in the Building, by any failure of the environmental conditions or the power supply for the Building to conform to any requirement of the Lines or any associated equipment, or any other problems associated with any Lines by any other cause; (b) any failure of any Lines to satisfy Tenant's requirements; or (c) any eavesdropping or wiretapping by unauthorized parties. Landlord in no event shall be liable for damages by reason of loss of profits, business interruption or other consequential damage arising from any Line Problems.

52.4 Electromagnetic Fields: If Tenant at any time uses any equipment that may create an electromagnetic field and/or radio frequency exceeding the normal insulation ratings of ordinary twisted pair riser cable or cause radiation higher than normal background radiation, Landlord reserves the right to require Tenant to appropriately insulate that equipment and the Lines therefor (including without limitation riser cables), and take such other remedial action at Tenant's sole cost and expense as Lender may require in its sole discretion to prevent such excessive electromagnetic fields, radio frequency or radiation.

ARTICLE 53.
ERISA

53.1 To satisfy compliance with the Employee Retirement Income Security Act of 1974, as amended, Tenant represents and warrants to Landlord and The Prudential Insurance Company of America, a New Jersey corporation ("Prudential"), that:

- (a) Tenant is not an "employee benefit plan" (as that term is defined in Section 3(3) of ERISA); and
- (b) Tenant is not acquiring the Property as a plan asset subject to ERISA but for Tenant's own investment account; and
- (c) Tenant is not an "affiliate" of Prudential as defined in Section IV(b) or PTE 90-1;
- (d) Tenant is not a "party in interest" (as that term is defined in Section 3(14) of ERISA) to the Virginia Retirement System; and
- (e) Tenant agrees to keep the identity of the Virginia Retirement System confidential, except to the extent that Tenant may be required to disclose such information as a result of (i) legal process, or (ii) compliance with ERISA or other Laws governing Tenant's operations.

ARTICLE 54.
TENANT'S RIGHT OF FIRST OFFER

54.1 Tenant shall have a right of first offer to lease the "Offer Space" hereunder. As used herein, "Offer Space" means the space commonly known as of the date of this Lease as Suites 102 and 103 in the Building and more particularly shown in Exhibit I to this Lease. If Landlord determines to lease a particular Offer Space (the "Specific Offer Space"), then Landlord shall first notify Tenant of the terms on which Landlord is willing to lease such Specific Offer Space (the "Availability Notice").

54.2 Intentionally Deleted.

54.3 The Availability Notice shall:

- (a) Describe the particular Specific Offer Space (including rentable area, usable area and location);
- (b) Include an attached floor plan identifying such space;
- (c) State the date (the "Specific Offer Space Delivery Date") the space will be available for delivery to Tenant; and
- (d) Specify the Base Rent for the Specific Offer Space.
- (e) Specify any tenant improvement allowances or other concessions.

54.4 If Tenant wishes to exercise Tenant's rights set forth in this Article 54 with respect to the Specific Offer Space, then within five (5) business days of delivery of the Availability Notice to Tenant, Tenant shall deliver irrevocable notice to Landlord (the "First Offer Exercise Notice") offering to lease the Specific Offer Space on the terms and conditions as may be specified by Landlord in the Availability Notice.

54.5 In the event Tenant fails to give a First Offer Exercise Notice in response to any Availability Notice, then Landlord thereafter shall have the right to lease the Specific Space to a third party on substantially the same terms stated in the Availability Notice. If Landlord does not lease the Specific Offer Space within one hundred eighty (180) days after the expiration of said five (5) business day period, any further transaction shall be deemed a new determination by Landlord to lease the Specific Offer Space and the provisions of this Article 54 shall again be applicable to such Specific Offer Space. For purposes hereof, the terms offered to a party other than Tenant shall be deemed to be substantially the same as those set forth in the Availability Notice as long as there is no more than a ten percent (10%) reduction in the "bottom line" cost per rentable square foot of the Specific Offer Space to such other party when compared with the "bottom line" cost per rentable square foot under the Availability Notice, considering all of the economic terms of the both deals, respectively, including, without limitation, the net rent, any tax or expense escalation or other financial escalation and any financial concessions. In the

event that Landlord proposes to lease the Specific Offer Space to any other party on terms that are not substantially the same as those set forth in the Availability Notice, Tenant's right of first offer under this Article 54 shall once again apply to the Specific Offer Space, and Landlord shall again deliver to Tenant an Availability Notice pursuant to Section 54.1 with respect to such Specific Offer Space. If Landlord enters into a lease of the Specific Offer Space in compliance with this Article 54, Tenant shall have no further right to receive an Availability Notice as to, or otherwise lease, the Specific Offer Space.

54.6 If Tenant timely and validly gives the First Offer Exercise Notice, then beginning on the Specific Offer Space Delivery Date and continuing for the balance of the Term (including any extensions):

(a) The Specific Offer Space shall be part of the Premises under this Lease (so that the term "Premises" in this Lease shall refer to the space in the Premises immediately before the Specific Offer Space Delivery Date plus the Specific Offer Space);

(b) Tenant's Building Percentage shall be adjusted to reflect the increased rentable area of the Premises.

(c) Base Rent for the Specific Offer Space shall be as specified in the Availability Notice.

(d) Tenant's lease of the Specific Offer Space shall be on the same terms and conditions as affect the original Premises from time to time, except as otherwise provided in this section. Tenant's obligation to pay Rent with respect to the Specific Offer Space shall begin on the Offer Space Delivery Date. The Offer Space shall be leased to Tenant in its "as-is" condition and Landlord shall not be required to construct improvements in, or contribute any tenant improvement allowance for, the Offer Space, except as expressly provided in the Availability Notice. Tenant's construction of any improvements in the Specific Offer Space shall comply with the terms of this Lease concerning alterations.

(e) If requested by Landlord, Landlord and Tenant shall confirm in writing the addition of the Specific Offer Space to the Premises on the terms and conditions set forth in this section, but Tenant's failure to execute or deliver such written confirmation shall not affect the enforceability of the First Offer Exercise Notice.

54.7 Tenant's rights and Landlord's obligations under this Article 54 are expressly subject to and conditioned upon there not existing an Event of Default by Tenant under this Lease, either at the time of delivery of the First Offer Exercise Notice or at the time the Specific Offer Space is to be added to the Premises.

54.8 It is understood and agreed that Tenant's rights under this Article 54 are personal to Tenant and its Permitted Transferees and not transferable except to Permitted Transferees. In the event of any assignment or subletting of more than fifty percent (50%) of the Premises for more than two (2) years other than to a Permitted Transferee, this expansion right shall automatically terminate and shall thereafter be null and void.

54.9 Tenant's rights and Landlord's obligations under this Article 54 are also expressly subject to and conditioned upon Tenant providing Landlord an additional security deposit in an amount equal to the same per square foot amount as originally provided by Tenant with respect to the Premises.

**FIRST AMENDMENT TO LEASE
(EXPANSION AND EXTENSION)**

This First Amendment to Lease (the "Agreement") is entered into as of August 10, 2007, by and between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord"), and QUALYS, INC., a Delaware corporation ("Tenant"), with respect to the following facts and circumstances:

A. Landlord and Tenant are parties to that certain Lease Agreement dated July 11, 2006 (the "Original Lease"), of certain premises (the "Existing Premises") within the building commonly known as 1600 Bridge Parkway, Redwood City, California (the "Building"), and more particularly described in the Original Lease. Capitalized terms used and not otherwise defined herein shall have the meanings given those terms in the Original Lease.

B. Landlord and Tenant desire to amend the Original Lease to add additional space and extend its term on the terms and conditions provided herein.

IT IS THEREFORE, agreed as follows:

1. As used in this Agreement, the following terms have the following meanings:

"Existing Premises" means a portion of the Building containing approximately 37,174 rentable square feet of area.

"Extension Commencement Date" shall mean August 1, 2011.

"Extension Term" shall mean the period from the Extension Commencement Date to the New Expiration Date.

"New Expiration Date" shall mean September 14, 2012.

"Suite 102 Expansion Space" means Suite 102 of the Building, containing approximately 9,695 rentable square feet of area, and more particularly shown on Exhibit "A-1" attached hereto.

"Suite 102 Expansion Space Commencement Date" shall mean October 1, 2007.

"Original Lease Expiration Date" shall mean September 28, 2011.

2. The "Expiration Date" under the Original Lease for the Existing Premises is hereby changed from the Original Lease Expiration Date to the New Expiration Date.

3. Tenant is in occupancy of the Existing Premises and hereby accepts the Existing Premises "AS IS, WHERE IS" condition without any obligation on Landlord's part to alter or improve such space or provide Tenant with any improvement allowance, except for the remaining Refurbishment Allowance set forth in the Original Lease.

4. Section 4.3 of the Original Lease is amended to increase the Security Deposit by \$22,395.45, for a total Security Deposit of \$87,395.45, which shall be held in accordance with the applicable provisions of the Original Lease regarding the Security Deposit. Tenant shall pay Landlord the increase in the Security Deposit upon Tenant's execution and delivery of this Agreement.

5. Except as otherwise provided herein, all of the terms and conditions of the Original Lease shall continue to apply during the Extension Term; provided, however, that there shall be no rent credit, and that there shall be no improvement allowance, Landlord construction obligations or other initial concessions with respect to the Extension Term

6. Landlord shall use commercially reasonable efforts to enforce the expiration of the existing lease of the Suite 102 Expansion Space, which is due to expire on August 31, 2007. As of the later of the date of such expiration or the vacation of the Suite 201 Expansion Space by the existing occupant, Tenant shall have access to the Suite 102 Expansion Space for purposes of constructing improvements, installing equipment and otherwise preparing the Suite 102 Expansion Space for occupancy. Such access prior to the Suite 102 Expansion Space Commencement Date shall be on the same terms and conditions of the Lease except that Tenant shall not have an obligation to pay rent during such early access period. In the event such access is not delivered to Tenant on or before September 1, 2007, the Suite 102 Expansion Space Commencement Date shall be delayed by one (1) day for each day for each day of delay in delivery of such access beyond September 1, 2007.

7. Effective on the Suite 102 Expansion Space Commencement Date, the Premises shall be expanded to include the Suite 102 Expansion Space. Accordingly, effective on the Suite 102 Expansion Space Commencement Date, the following terms of the Original Lease are amended as follows:

7.1 The Suite 102 Expansion Space is added to the Premises such that the Premises shall be comprised of the Existing Premises and the Suite 102 Expansion Space, and Exhibit "A-1" attached hereto is hereby added to Exhibit "A" to the Original Lease.

7.2 Tenant's Building Percentage is increased to 93.12%.

7.3 The Term with respect to the Suite 102 Expansion Space shall be coterminous with the Existing Premises. In the event that Tenant exercises its extension option or a termination right under the Original Lease, such extension or termination shall apply to the entire Premises then subject to the Original Lease (including the Suite 102 Expansion Space).

7.4 Landlord represents and warrants that as of the delivery of possession of the Suite 102 Expansion Space to Tenant, Landlord has not received any written notice that the roof, structural components of the Building HVAC system, supplemental HVAC system, electrical and plumbing systems, elevator, parking lot or site lighting (the "Covered Items") violate applicable laws in effect and enforceable against the Landlord or the Building as of the date of this Agreement. In the event Landlord receives notice of any violation of applicable laws with respect to any of the Covered Items existing as of or prior to the delivery of

possession of the Suite 102 Expansion Space to Tenant, Landlord shall be responsible for the cost of correcting those violations, provided, however, that such violation of applicable law is not a result of Tenant improvements to the Suite 102 Expansion Space. Landlord shall have the right to contest any alleged violation in good faith, including without limitation the right to apply for and obtain a waiver or deferment of compliance, the right to assert any and all defenses allowed by applicable law and the right to appeal any decisions, judgments or rulings to the fullest extent permitted by applicable law.

Landlord warrants that the roof, Building HVAC system, supplemental HVAC system, electrical and plumbing systems, elevator, parking lot or site lighting, other than those constructed by Tenant, shall be in good operating condition on the date possession of the Suite 102 Expansion Space is delivered to Tenant. If a non-compliance with such warranty exists as of the delivery of possession of the Suite 102 Expansion Space, or if one of such Covered Items should malfunction or fail within six (6) months after the delivery of possession of the Suite 102 Expansion Space, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice from Tenant setting forth in reasonable detail the nature and extent of such non-compliance, malfunction or failure, rectify the same at Landlord's expense (without the same being included in Operating Expenses); provided that Landlord shall not be obligated to rectify any problem to the extent caused by Tenant's negligence, willful misconduct or breach of the Lease. If Tenant does not give Landlord the required notice within six (6) months after the Suite 102 Expansion Space Commencement Date, Landlord shall have no obligation with respect to that warranty other than general maintenance and repair obligations regarding the Covered Items set forth elsewhere in the Lease.

7.5 Landlord and Tenant acknowledge that Tenant may desire to make certain Alterations to the Suite 102 Expansion Space including painting, carpeting, electrical upgrade, if necessary, refurbishment of furniture and cubicles and construction of other improvements ("Tenant's Work"). So long as no Event of Default shall be declared and existing under the Original Lease (as amended by this Amendment) as of the date Tenant requests reimbursement of the Allowance (as defined below), Landlord agrees to reimburse Tenant up to, and not to exceed the sum of Ninety-Six Thousand Nine Hundred Fifty Dollars (\$96,950.00) (the "Allowance") (based on a \$10.00 prsf of the Suite 102 Expansion Space). Landlord shall pay the Allowance to Tenant upon delivery to Landlord of "Tenant's Completion Notice" (as defined below) according to the terms and conditions of this Paragraph 6.5. The Allowance shall be used to reimburse Tenant for hard and/or soft costs incurred in connection with Tenant's Work ("Tenant's Work Costs"); provided, however, in no event shall the Allowance be used to pay for any of Tenant's trade fixtures, equipment or inventory. Landlord shall pay the Allowance to Tenant in not more than three (3) disbursements based on paid invoices for goods and services rendered within thirty (30) days of submission of said invoices; provided, however, in no event shall the Allowance be used to pay for any of Tenant's trade fixtures, equipment or inventory and no request for disbursement other than the final request for disbursement may be for an amount less than \$30,000.00. Landlord's disbursement of the Allowance shall be subject to Landlord's reasonable disbursement procedures including, without limitation, the requirement that Tenant submit (a) copies of paid invoices and unconditional lien waivers from Tenant's general contractor and all subcontractors and material suppliers, showing that full payment has been received for

the construction of Tenant's Work for which reimbursement is sought; (b) certification from Tenant's architect that the portion of the Tenant's Work for which reimbursement is being sought has been completed substantially in accordance with the plans and specifications therefor (approved by Landlord, to the extent Landlord's approval of such plans and specifications was required under Article 2 of the Original Lease, as amended by this Amendment) and all local governmental and quasi-governmental authorities with jurisdiction; and (c) where final payment is being sought, a copy of the building permit for Tenant's Work, if applicable, signed by the appropriate building inspector, indicating that Tenant's Work has been finally approved. The Allowance shall be available for reimbursement to Tenant in not more than three (3) disbursements during the period from September 15, 2007 through March 31, 2008 (the "Window"). Any portion of the Allowance not requested by Tenant within the Window shall be deemed forfeited by Tenant and shall no longer be available for disbursement to or for the account of Tenant.

7.6 While Tenant completes the Tenant Work, Tenant may store existing furniture and work stations in an on-site storage container (the "Container") located in the parking lot of the Building. The exact location of the Container in the parking lot shall be subject to the Landlord's approval, which maybe withheld in its sole and absolute discretion. Tenant shall use its best efforts to minimize the time that the Container is in use and shall promptly remove the Container once it is no longer needed. In any event, Tenant shall remove the Container from the Building parking lot immediately after the Tenant Work is completed. The Container shall be part of the Suite 102 Expansion Space and Existing Premises for the purpose of Articles 13 and 21 of the Lease. Any furniture, work stations or other items stored in the Container shall be stored at the Tenant's own risk and in no event shall the Landlord be liable for such items.

7.7 Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, at no additional rent, the Personal Property listed on Exhibit I hereto, if any (the "Included Personal Property"). Tenant shall (a) accept the Included Personal Property in its "as is" condition as of the date hereof, as the same may be affected by reasonable wear and tear after the date hereof, (b) insure the Included Personal Property against loss or damage by fire or other casualty (and all of the provisions of this Lease applicable to insurance required to be carried by Tenant shall be applicable thereto), and (c) surrender the Included Personal Property to Landlord in the Premises upon the expiration or sooner termination of this Lease in the same condition as at the commencement of this Lease, as the same may be affected by reasonable wear and tear or damage by fire or other casualty; provided, however, that if the Included Personal Property shall have been damaged by fire or other casualty and not repaired or replaced then upon such expiration or sooner termination Tenant shall pay to Landlord the full replacement cost thereof.

7.8 Tenant, its employees and invitees shall have the right to use 3.3 non-exclusive parking spaces per one thousand (1,000) square feet of Suite 102 Expansion Space or thirty-two (32) parking spaces.

8. Commencing on the Suite 102 Expansion Space Commencement Date and ending on July 31, 2011, Tenant agrees to pay Landlord Base Rent for the Suite 102 Expansion Space in accordance with the following schedule:

| <u>Period</u> | <u>Annual Base Rent</u> | <u>Monthly Base Rent</u> |
|--------------------------------------|-------------------------|--------------------------|
| October 1, 2007 – September 30, 2008 | \$ 238,497.00 | \$ 19,874.75 |
| October 1, 2008 – September 30, 2009 | \$ 245,477.40 | \$ 20,456.45 |
| October 1, 2009 – September 30, 2010 | \$ 252,457.80 | \$ 21,038.15 |
| October 1, 2010 – July 31, 2011 | \$ 260,601.60 | \$ 21,716.80 |

The Base Rent for the Existing Premises prior to the Extension Commencement Date shall be provided in the Original Lease. Commencing on the Extension Commencement Date, the Tenant agrees to pay Landlord Base Rent for the Suite 102 Expansion Space and the Existing Premises in accordance with the following schedule:

| <u>Period</u> | <u>Annual Base Rent</u> | <u>Monthly Base Rent</u> |
|--------------------------------------|-------------------------|--------------------------|
| August 1, 2011 – September 30, 2011 | \$1,259,838.72 | \$ 104,986.56 |
| October 1, 2011 – September 30, 2012 | \$1,299,208.68 | \$ 108,267.39 |

The Monthly Base Rent for the first month after the Suite 102 Expansion Space Commencement Date shall be payable upon the execution of this Agreement. The Monthly Base Rent for the Suite 102 Expansion Space shall be payable in the manner provided for in the Original Lease.

9. Landlord hereby represents and warrants to Tenant that it has dealt with no broker, finder or similar person in connection with this Agreement, and Tenant hereby represents and warrants to Landlord that it has dealt with no broker, finder or similar person in connection with this Agreement, other than NAIBT Commercial (“Landlord’s Broker”) and Colliers International (“Tenant’s Broker”). Landlord and Tenant shall each defend, indemnify and hold the other harmless with respect to all claims, causes of action, liabilities, losses, costs and expenses (including without limitation attorneys’ fees) arising from a breach of the foregoing representation and warranty. The commission with respect to this Agreement shall be paid to Landlord’s Broker by Landlord pursuant to a separate agreement. Landlord’s Broker will pay Tenant’s Broker a commission pursuant to a separate agreement. Nothing in this Agreement shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord’s Broker.

10. Time is of the essence of this Agreement and the provisions contained herein.

11. As additional consideration for this Agreement, Tenant hereby certifies that:

- (a) The Original Lease (as amended hereby) is in full force and effect.
- (b) Tenant is in possession of the Premises.
- (c) Rent has been paid through August 31,2007.

(d) To Tenant's knowledge without the duty of inquiry, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

(e) To Tenant's knowledge without the duty of inquiry, there are no existing offsets or defenses which Tenant has against the enforcement of the Original Lease (as amended hereby) by Landlord.

12. Except as specifically provided herein, the terms and conditions of the Original Lease as amended hereby are confirmed and continue in full force and effect. This Agreement shall be binding on the heirs, administrators, successors and assigns (as the case may be) of the parties hereto. This Agreement and the attached exhibits, which are hereby incorporated into and made a part of this Agreement, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any free rent concession, improvement allowance, leasehold improvements, or other work to the Suite 102 Expansion Space, or any similar economic incentives with respect to the Suite 102 Expansion Space that may have been provided to Tenant in connection with entering into the Original Lease, unless specifically set forth in this Agreement. In the case of any inconsistency between the provisions of the Original Lease and this Agreement, the provisions of this Agreement shall govern and control. Submission of this Agreement by Landlord is not an offer to enter into this Agreement but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Agreement until Landlord has executed and delivered the same to Tenant.

13. Effective as of the date hereof, all references to the "Lease" shall refer to the Original Lease, as amended by this Agreement.

14. To satisfy compliance with the Employee Retirement Income Security Act of 1974, as amended, Tenant represents and warrants to Landlord and The Prudential Insurance Company of America, a New Jersey corporation ("Prudential"), that:

(a) Tenant is not an "employee benefit plan" (as that term is defined in Section 3(3) of ERISA); and

(b) Tenant is not acquiring the Property as a plan asset subject to ERISA but for Tenant's own investment account; and

(c) Tenant is not an "affiliate" of Prudential as defined in Section IV(b) or PTE 90-1;

(d) Tenant is not a "party in interest" (as that term is defined in Section 3(14) of ERISA) to the Virginia Retirement System; and

(e) Tenant agrees to keep the identity of the Virginia Retirement System confidential, except to the extent that Tenant may be required to disclose such information as a result of (i) legal process, or (ii) compliance with ERISA or other Laws governing Tenant's operations.

IN WITNESS WHEREOF, this Agreement was executed as of the date first above written.

WESTPORT OFFICE PARK, LLC,
a California limited liability company

By: THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA, a New Jersey corporation, its member

By: /s/ JOLYNN CHOW MILLER

JOLYNN CHOW MILLER SECOND VICE
PRESIDENT

[Printed Name and Title]

Tenant:

QUALYS, INC., a Delaware corporation



By: _____

Its: CFO

By: _____

Its: _____

EXHIBIT A-1

SUITE 102 EXPANSION SPACE

(See Attached)

Exhibit A-1

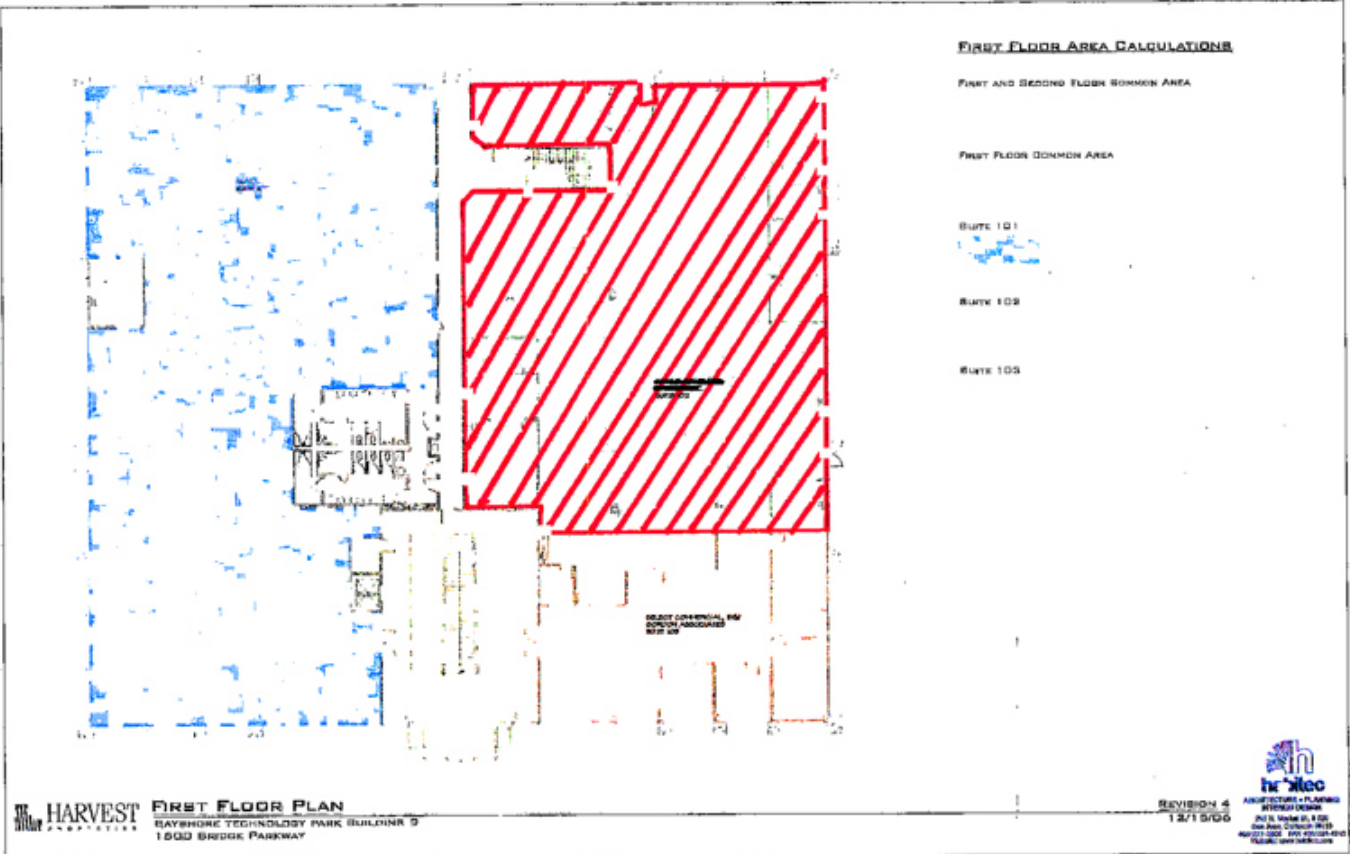


Exhibit A-1

EXHIBIT I

PERSONAL PROPERTY

(See Attached List)

Exhibit I

HARVEST PROPERTIES - 1600 BRIDGE PARKWAY SUITE 102
EXISTING FURNITURE INVENTORY

| PRODUCT | QTY |
|---------------------------------------------------------------------------------|------------|
| HAWORTH WORKSTATION (6'X6' OPEN) | 12 |
| HAWORTH WORKSTATION (4'X7' OPEN BULLPEN) | 8 |
| HAWORTH WORKSTATION (8'X8' ENCLOSED) | 19 |
| HAWORTH WORKSTATION (8'X12' OFFICE ENCLOSED) | 3 |
| 6.5'X7' DESK | 2 |
| 3.5'X7' DESK | 1 |
| 42" ROUND TABLE | 1 |
| 36" ROUND TABLE | 1 |
| 3Q"X36" RECTANGULAR TABLE | 1 |
| 2.5'X5' RECTANGULAR TABLE | 4 |
| 5'X17' BOAT CONFERENCE TABLE | 1 |
| 20"X66" CREDENZA | 2 |
| MISCELLANEOUS ADDITIONAL STORAGE COMPONENTS I.E. LATERAL FILES, PEDESTALS, ETC. | |
| MISCELLANEOUS ADDITIONAL PANEL FRAMES, TILES, ETC | |
| SEATING NOT INCLUDED | |

SECOND AMENDMENT TO LEASE
(EXPANSION)

This Second Amendment to Lease (the "Agreement") is entered into as of May 20, 2010 by and between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord"), and QUALYS, INC., a Delaware corporation ("Tenant"), with respect to the following facts and circumstances:

A. Landlord and Tenant are parties to that certain Lease Agreement dated July 11, 2006, and that certain First Amendment to Lease dated August 10, 2007 (collectively, the "Original Lease"), of certain premises (the "Existing Premises") within the building commonly known as 1600 Bridge Parkway, Redwood City, California (the "Building"), and more particularly described in the Original Lease. Capitalized terms used and not otherwise defined herein shall have the meanings given those terms in the Original Lease.

B. Landlord and Tenant desire to amend the Original Lease to add additional space on the terms and conditions provided herein.

IT IS THEREFORE, agreed as follows:

1. As used in this Agreement, the following terms have the following meanings:

"Suite 103 Expansion Space" means Suite 103 of the Building, containing approximately 3,112 rentable square feet of area, and more particularly shown on Exhibit "A-2" attached hereto.

"Suite 103 Expansion Space Commencement Date" shall mean June 15, 2010.

"Suite 103 Expansion Improvements" means those certain improvements shown and described on Exhibit "J" attached hereto.

2. Effective on the Suite 103 Expansion Space Commencement Date, the Premises shall be expanded to include the Suite 103 Expansion Space. Accordingly, effective on the Suite 103 Expansion Space Commencement Date, the following terms of the Original Lease are amended as follows:

2.1 The Suite 103 Expansion Space is added to the Premises such that the Premises shall be comprised of the Existing Premises and the Suite 103 Expansion Space, and Exhibit "A-2" attached hereto is hereby added to Exhibit "A" and Exhibit "A-1" to the Original Lease.

2.2 Tenant's Building Percentage is increased to 100%.

2.3 Tenant agrees to pay Landlord Base Rent for the Suite 103 Expansion Space in accordance with the following schedule:

| <u>Period</u> | <u>Annual Base Rent</u> | <u>Monthly Base Rent</u> |
|------------------------------------|-------------------------|--------------------------|
| June 15, 2010 – June 14, 2011 | \$ 46,680.00 | \$ 3,890.00 |
| June 15, 2011 – June 14, 2012 | \$ 48,547.20 | \$ 4,045.60 |
| June 15, 2012 – September 14, 2012 | \$ 50,414.40 | \$ 4,201.20 |

The total Monthly Rent for the Suite 103 Expansion Space for the first month after the Suite 103 Expansion Space Commencement Date, in the total amount of \$6,939.76, shall be payable upon the execution of this Agreement. The Monthly Rent for the Suite 103 Expansion Space shall be payable in the manner provided for in the Original Lease.

2.4 The Term with respect to the Suite 103 Expansion Space shall be coterminous with the Existing Premises. In the event that Tenant exercises its extension option or a termination right under the Original Lease, such extension or termination shall apply to the entire Premises then subject to the Original Lease (including the Suite 103 Expansion Space).

2.5 Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, at no additional rent, the personal property listed on Exhibit "I-1" hereto, if any (the "Suite 103 Included Personal Property"). Tenant shall (i) accept the Suite 103 Included Personal Property in its "AS-IS" condition as of the date hereof, as the same may be affected by reasonable wear and tear after the date hereof, (ii) insure the Suite 103 Included Personal Property against loss or damage by fire or other casualty (and all of the provisions of this Lease applicable to insurance required to be carried by Tenant shall be applicable thereto), and (iii) surrender the Suite 103 Included Personal Property to Landlord in the Premises upon the expiration or sooner termination of this Lease in the same condition as received, as the same may be affected by reasonable wear and tear or damage by fire or other casualty; provided, however, that if the Suite 103 Included Personal Property shall have been damaged by fire or other casualty and not repaired or replaced then upon such expiration or sooner termination, then Tenant shall pay to Landlord the full replacement cost thereof.

2.6 Tenant, its employees and invitees shall have the right to use 3.3 non-exclusive parking spaces per one thousand (1,000) square feet of Suite 103 Expansion Space or ten (10) parking spaces.

2.7 Section 54 of the Original Lease is deleted in its entirety and is of no further force or effect.

3. Landlord agrees to construct the Suite 103 Expansion Improvements in the Suite 103 Expansion Space in a good and workmanlike manner and in compliance with all laws, rules, regulations, building codes and ordinances at Landlord's sole cost and expense; provided Tenant shall be solely responsible for all work and costs associated with (i) the

removal and reinstallation of any furniture and other personal property, (ii) the relocation of the furniture in the reception area, and (iii) any furniture and installations for the mail receiving area, and shall immediately pay to Landlord any costs incurred by Landlord in connection with any of the foregoing as Additional Rent upon receipt of written demand therefor.

4. Except for the Suite 103 Expansion Improvements to be constructed by Landlord pursuant to Section 3 above, Tenant shall accept the Suite 103 Expansion Space in its "AS IS, WHERE IS" condition. Tenant agrees that Landlord has no obligation and has made no promise to alter, remodel, improve, or repair the Suite 103 Expansion Space, or any part thereof, or to repair, bring into compliance with applicable laws, or improve any condition existing in the Suite 103 Expansion Space as of the Suite 103 Expansion Space Commencement Date, except as expressly set forth in Section 3 above. The taking of possession of the Suite 103 Expansion Space by Tenant shall be conclusive evidence that the Suite 103 Expansion Space, Suite 103 Expansion Improvements, and the Building were in good and satisfactory condition at the time possession was taken by Tenant, except for latent defects. Except as expressly set forth in this Agreement, neither Landlord nor Landlord's agents have made any representations or promises with respect to the condition of the Building, the Suite 103 Expansion Space, the land upon which the Building is constructed, the present or future suitability or fitness of the Suite 103 Expansion Space or the Building for the conduct of Tenant's particular business, or any other matter or thing affecting or related to the Building or the Suite 103 Expansion Space, and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in the Original Lease. Any improvements or personal property located in the Suite 103 Expansion Space are delivered without any representation or warranty from Landlord, either express or implied, of any kind, including without limitation, title, merchantability, or suitability for a particular purpose. Tenant shall deliver to Landlord any modifications to Tenant's insurance required under the Original Lease to reflect the addition of the Suite 103 Expansion Space and Tenant's entry into the Suite 103 Expansion Space prior to the delivery of possession to Tenant.

Notwithstanding the foregoing, Landlord warrants that the roof, the HVAC system, electrical and plumbing systems, doors, elevator, parking lot, site lighting and all structural components of the Building (collectively, the "Covered Items"), shall be in good operating condition on the date possession of the Suite 103 Expansion Space is delivered to Tenant; provided the term "Covered Item" shall not include any such items (or portions thereof) to the extent such (i) were constructed, installed, altered or modified by Tenant, or (ii) were as of the date immediately prior to the date of this Amendment required to be maintained and repaired by Tenant pursuant to the Original Lease. If a non-compliance with such warranty exists as of the delivery of possession of the Suite 103 Expansion Space, or if one of such Covered Items should malfunction or fail within six (6) months after the delivery of possession of the Suite 103 Expansion Space, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice from Tenant setting forth in reasonable detail the nature and extent of such non-compliance, malfunction or failure, rectify the same at Landlord's expense (without the same being included in Operating Expenses); provided that Landlord shall not be obligated to rectify any problem to the extent caused by Tenant's negligence, willful misconduct or breach of the Lease. If Tenant does not give Landlord the required notice within six (6) months after the Suite 103 Expansion Space Commencement

Date, Landlord shall have no obligation with respect to that warranty other than general maintenance and repair obligations regarding the Covered Items set forth elsewhere in the Lease.

5. Landlord hereby represents and warrants to Tenant that it has dealt with no broker, finder or similar person in connection with this Agreement, and Tenant hereby represents and warrants to Landlord that it has dealt with no broker, finder or similar person in connection with this Agreement, other than Cassidy Turley/BT Commercial ("Landlord's Broker") and Colliers International ("Tenant's Broker"). Landlord and Tenant shall each defend, indemnify and hold the other harmless with respect to all claims, causes of action, liabilities, losses, costs and expenses (including without limitation attorneys' fees) arising from a breach of the foregoing representation and warranty. The commission with respect to this Agreement shall be paid to Landlord's Broker by Landlord pursuant to a separate agreement. Landlord's Broker will pay Tenant's Broker a commission pursuant to a separate agreement. Nothing in this Agreement shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker.

6. Section 4.3 of the Original Lease is amended to increase the Security Deposit by \$6,939.76, for a total of \$94,335.21, which shall be held in accordance with the applicable provisions of the Original Lease regarding the Security Deposit. Tenant shall pay Landlord the amount of that increase upon Tenant's execution and delivery of this Agreement.

7. Tenant shall be entitled to suite entry signage consistent with Landlord's signage program for the Project. In addition, as of the date of this Agreement, Tenant shall have the exclusive use of the monument sign serving the Building and described in Section 32.2 of the Original Lease.

8. Time is of the essence of this Agreement and the provisions contained herein.

9. As additional consideration for this Agreement, Tenant hereby certifies that:

(a) The Original Lease (as amended hereby) is in full force and effect.

(b) Tenant is in possession of the Premises.

(c) Rent has been paid through May 31, 2010.

(d) To Tenant's knowledge, without the duty of inquiry, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

(e) To Tenant's knowledge, without the duty of inquiry, there are no existing offsets or defenses which Tenant has against the enforcement of the Original Lease (as amended hereby) by Landlord.

(f) All of Landlord's obligations with respect to construction of tenant improvements in the Premises and payment of Tenant improvement allowances have been satisfied, except those expressly provided for in this Agreement.

10. As additional consideration for this Agreement, Landlord hereby certifies that:

- (a) The Original Lease (as amended hereby) is in full force and effect.
- (b) To Landlord's knowledge, without the duty of inquiry, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

11. Except as specifically provided herein, the terms and conditions of the Original Lease as amended hereby are confirmed and continue in full force and effect. This Agreement shall be binding on the heirs, administrators, successors and assigns (as the case may be) of the parties hereto. This Agreement and the attached exhibits, which are hereby incorporated into and made a part of this Agreement, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any free rent concession, improvement allowance, leasehold improvements, or other work to the Existing Premises or Suite 103 Expansion Space, or any similar economic incentives that may have been provided to Tenant in connection with entering into the Original Lease, unless specifically set forth in this Agreement. In the case of any inconsistency between the provisions of the Original Lease and this Agreement, the provisions of this Agreement shall govern and control. Submission of this Agreement by Landlord is not an offer to enter into this Agreement. Neither party shall be bound by this Agreement until both Landlord and Tenant have executed and delivered the same to the other.

12. Effective as of the date hereof, all references to the "Lease" shall refer to the Original Lease, as amended by this Agreement.

13. To satisfy compliance with the Employee Retirement Income Security Act of 1974, as amended, Tenant represents and warrants to Landlord and The Prudential Insurance Company of America, a New Jersey corporation ("Prudential"), that:

- (a) Tenant is not an "employee benefit plan" (as that term is defined in Section 3(3) of ERISA);
- (b) Tenant is not acquiring the Property as a plan asset subject to ERISA but for Tenant's own investment account;
- (c) Tenant is not an "affiliate" of Prudential as defined in Section IV(b) or PTE 90-1;
- (d) Tenant is not a "party in interest" (as that term is defined in Section 3(14) of ERISA) to the Virginia Retirement System; and
- (e) Tenant agrees to keep the identity of the Virginia Retirement System confidential, except to the extent that Tenant may be required to disclose such information as a result of (i) legal process, or (ii) compliance with ERISA or other Laws governing Tenant's operations.

EXHIBIT A-2

SUITE 103 EXPANSION SPACE

(See Attached.)

Exhibit A-2

Bayshore Technology Park

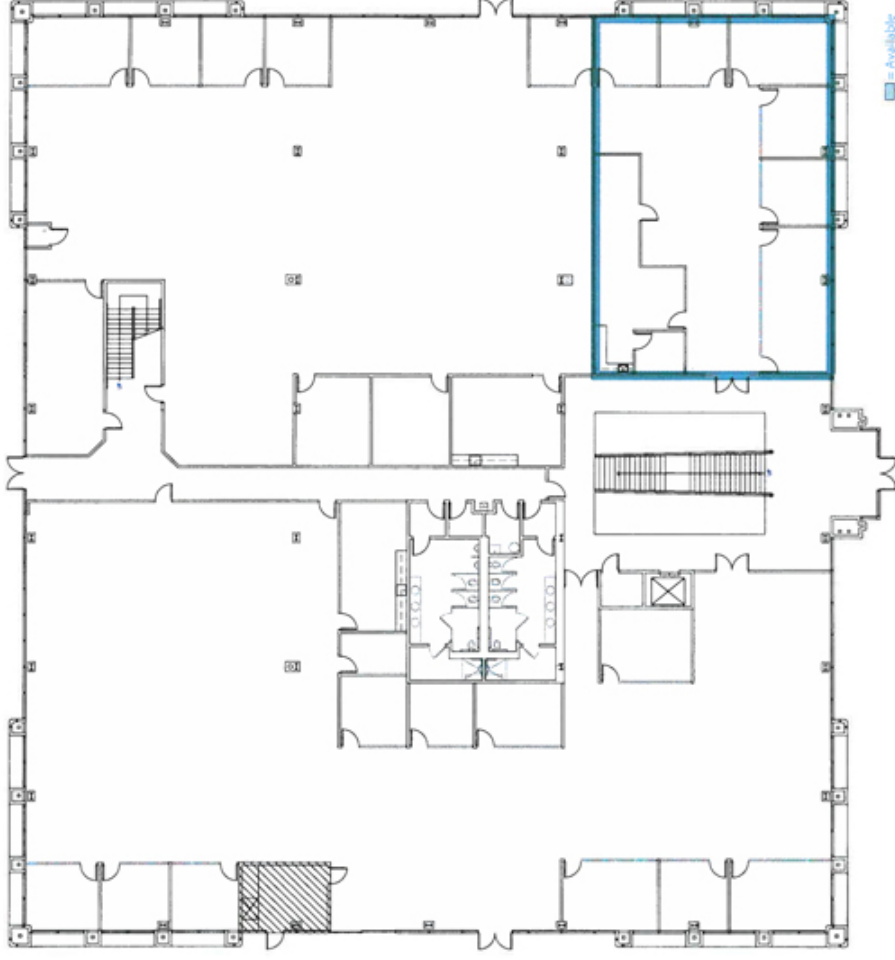
Redwood City, CA

www.bayshoretechpark.com

1600 Bridge Parkway

Suite 103 ±3,112 sf

- Plug & Play
- Excellent, Rare Corner Unit
- 5 Private Offices
- 1 Conference Room
- Kitchenette



Randy Keller
650 347 3700
Lic. #00641897
rkeller@cibt.com

Mike Moran
650 347 3700
Lic. #00901003
mmoran@cibt.com

Ben Paul
650 347 3700
Lic. #01210872
bpaul@cibt.com

Randy Arrillaga
650 852 1200
Lic. #00962904
rarrillaga@cibt.com

**Cassidy
Turley** BT
Commercial

EXHIBIT I-1

SUITE 103 INCLUDED PERSONAL PROPERTY

(See Attached List)

Exhibit I-1

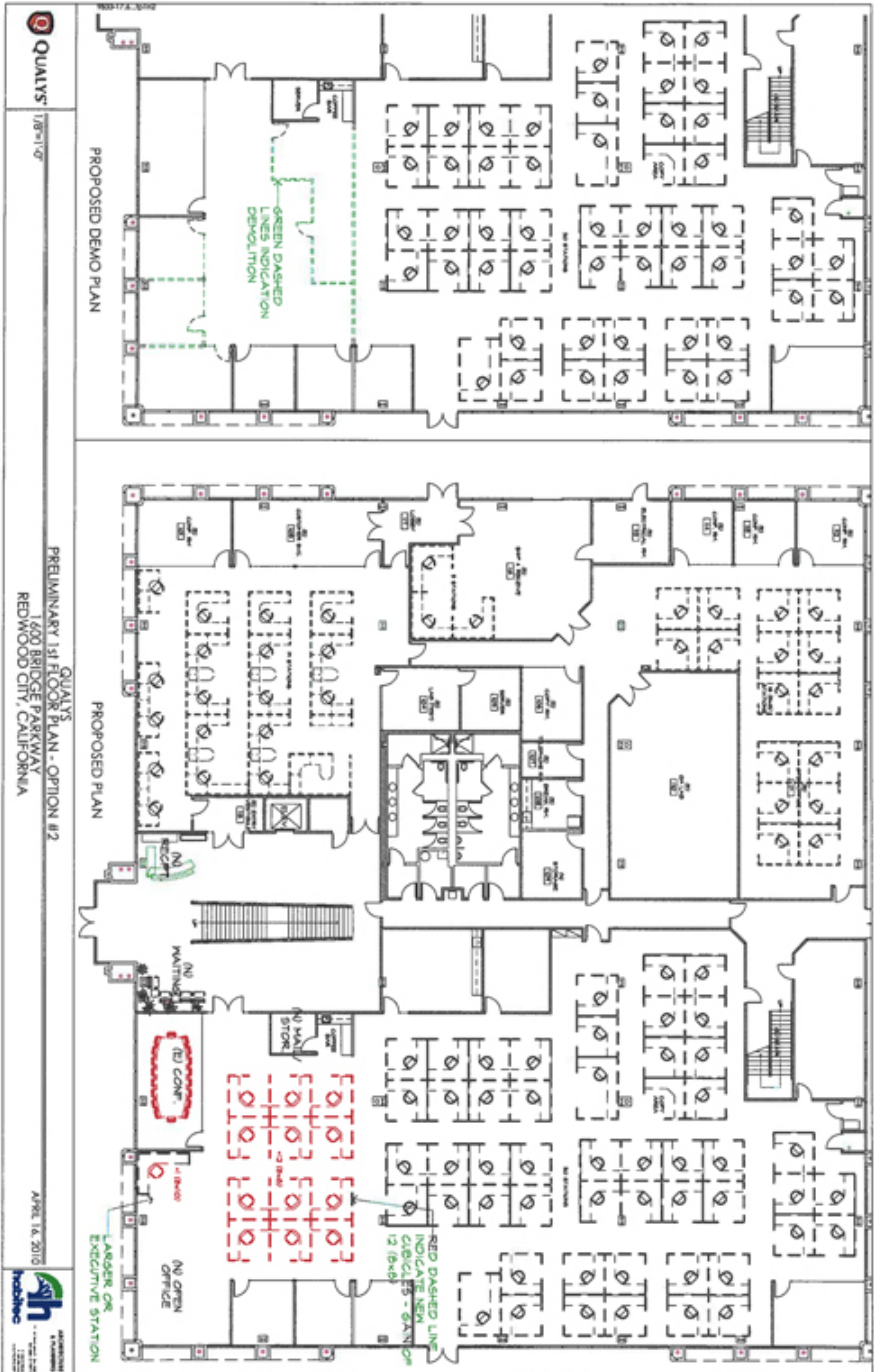
**1600 BRIDGE PARKWAY SUITE 103
INCLUDED PERSONAL PROPERTY**

| PRODUCT | QTY |
|-----------------------------------------------------------------------------|-----|
| WORK STATIONS 8x8 | 8 |
| MAPLE EXECUTIVE DESK SET | 1 |
| MAPLE DESK SETS | 4 |
| MISCELLANEOUS ADDITIONAL STORAGE COMPONENTS I.E. LATERAL FILES, SHELF UNITS | |

EXHIBIT J

Append (i) space plan for Suite 103 Expansion Space and (ii) bid provided by ABCi All Bay dated April 20, 2010, including new carpeting for the Suite 103 Expansion Space.

Exhibit J - 1



QUALITYS
1/8"=1'-0"

QUALITYS
PRELIMINARY 1ST FLOOR PLAN - OPTION #2
1600 BRIDGE PARKWAY
REDWOOD CITY, CALIFORNIA

APRIL 16, 2010





PROPOSAL: 003443 DATE: 04/20/10

Qualys - 1st Floor Option 2

CLIENT: 599
 Qualys
 1600 Bridge Parkway
 Redwood City, CA 94065

PROJECT: 39814
 Qualys - 1st Floor Option 2
 1600 Bridge Parkway
 Redwood City, CA 94065

Thank you for the opportunity to bid this project. Our proposal includes only the items listed below. Additional work will be performed upon approval of "Additional Work Authorization".

Alternate:

This option does not include a mail box and drywall improvements as was done in the building 1400 1st. floor lobby. Add for mail box improvement: \$10120.00

| | |
|-----------------------------------------------------|-------|
| DIRECT JOB EXPENSE | |
| Gen Conditions & Insurance 5% | 2,254 |
| Permit Fee Allowance | 2,193 |
| Project Manager | 678 |
| Supervision | 2,037 |
| Daily & Final Clean-up | 1,113 |
| SITE WORK / DEMO | |
| Demolition | 7,095 |
| 1) Remove walls and finishes at (6) areas | |
| 2) Remove demising wall | |
| CARPENTRY - NOT INCLUDED IN LANDLORD'S SCOPE | |
| Cabinetwork-Relocate Reception | 2,400 |
| 1) Move Millwork down stairs | |
| THERM/MOIST PRCT'N | |
| Insulation - No Work | |
| DOORS & WINDOWS | |
| Doors & Frames | 236 |
| Glass - No Work | |

| | |
|---------------------------------------------|-----------------|
| FINISHES | |
| Framing & Drywall | 1,578 |
| Patch at demo | |
| Tape/Finish | 1,544 |
| Acoustical Ceilings | 2,935 |
| 1) Patch as required | |
| Floor Covering | 13,035 |
| 1) New carpet & rubber base in ares of demo | |
| Painting | 1,694 |
| 1) Paint affected ares | |
| MECHANICAL | |
| HVAC | |
| 1) Reduct as required | 2,518 |
| ELECTRICAL | |
| Electrical | 6,029 |
| 1) Rework lighing | |
| 2) Refeed cubes | |
| 3) Safe-off at demo | |
| 4) (8) New outlets | |
| FEE | |
| Contractor Fee 3% | 1,353 |
| TOTAL BID: | \$48,692 |

Signed: Phil Loulace
 ABCI

Approved For Contract: _____
 Client

Date: 04/20/10

Date: _____

Title: Project Manager

Title: _____

THIRD AMENDMENT TO LEASE
(EXTENSION)

This Third Amendment to Lease (the "Agreement") is entered into as of December 5, 2011, by and between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord") and QUALYS, INC., a Delaware corporation ("Tenant") with respect to the following facts and circumstances:

A. Landlord and Tenant are parties to that certain Lease Agreement dated July 11, 2006, as amended by that certain First Amendment to Lease dated August 10, 2007 and that certain Second Amendment to Lease (the "Second Amendment") dated as of May 20, 2010 (collectively, the "Original Lease"), of certain premises (the "Premises") within the building commonly known as 1600 Bridge Parkway, Redwood City, California (the "Building"), and more particularly described in the Original Lease. Capitalized terms used and not otherwise defined herein shall have the meanings given those terms in the Original Lease.

B. Landlord and Tenant desire to amend the Original Lease to extend its term and to make other modifications on the terms and conditions provided herein.

IT IS, THEREFORE, agreed as follows:

1. The Original Lease Termination Date is hereby changed to November 30, 2017 (the "Second New Expiration Date"). The period from September 15, 2012 (the "Second Extension Commencement Date") to the Second New Expiration Date is referred to herein as the "Second Extension Term."

2. Commencing on the Second Extension Commencement Date, Tenant shall pay to Landlord monthly Base Rent in accordance with the following schedule on the first day of each month of the Second Extension Term:

| <u>Period</u> | <u>Annual Base Rent</u> | <u>Monthly Base Rent</u> |
|-------------------------|-------------------------|--------------------------|
| 09/15/2012 – 11/14/2012 | Abated* | Abated* |
| 11/15/2012 – 09/30/2013 | \$1,259,521.20 | \$ 104,960.10 |
| 10/01/2013 – 09/30/2014 | \$1,297,306.92 | \$ 108,108.91 |
| 10/01/2014 – 09/30/2015 | \$1,336,226.04 | \$ 111,352.17 |
| 10/01/2015 – 09/30/2016 | \$1,376,312.88 | \$ 114,692.74 |
| 10/01/2016 – 11/30/2017 | \$1,417,602.24 | \$ 118,133.52 |

* As an inducement to Tenant entering into this Agreement, so long as no Event of Default by Tenant then exists and is continuing, Base Rent in the amount of \$104,960.10 per month shall be abated during the period from September 15, 2012, through November 14, 2012. The amount of Base Rent set forth in the foregoing table for that period reflects that rent abatement. During such abatement period, Tenant shall still be responsible for the payment of all of its other monetary obligations under the Lease.

3. Tenant is in occupancy of the Premises and hereby accepts the Premises "AS IS", without any obligation on Landlord's part to alter or improve such space or provide Tenant with any improvement allowance, except for the allowance provided for in Section 4 of this Agreement.

4. Landlord and Tenant acknowledge that Tenant may desire to make certain Alterations to the Premises including painting, carpeting, electrical upgrade, if necessary, refurbishment of furniture and cubicles and construction of other improvements ("Tenant's 2011 Work"). So long as no Event of Default shall be declared and existing under the Original Lease (as amended by this Agreement) as of the date Tenant requests reimbursement of the 2011 Allowance (as defined below), Landlord agrees to reimburse Tenant up to, and not to exceed the sum of \$174,933.50 (the "2011 Allowance") (based on a \$3.50 per rentable square foot of the Premises). Landlord shall pay the 2011 Allowance to Tenant upon delivery to Landlord of "Tenant's 2011 Completion Notice" (as defined below) according to the terms and conditions of this Section 4. The 2011 Allowance shall be used to reimburse Tenant for hard and/or soft costs incurred in connection with Tenant's 2011 Work ("Tenant's 2011 Work Costs"); provided, however, in no event shall the 2011 Allowance be used to pay for any of Tenant's trade fixtures, equipment or inventory. Landlord shall pay the 2011 Allowance to Tenant in not more than five (5) disbursements based on paid invoices for goods and services rendered within thirty (30) days of submission of said invoices; provided, however, in no event shall the 2011 Allowance be used to pay for any of Tenant's trade fixtures, equipment or inventory and no request for disbursement other than the final request for disbursement may be for an amount less than \$30,000.00. Landlord's disbursement of the 2011 Allowance shall be subject to Landlord's reasonable disbursement procedures including, without limitation, the requirement that Tenant submit (a) copies of paid invoices and unconditional lien waivers from Tenant's general contractor and all subcontractors and material suppliers, showing that full payment has been received for the construction of Tenant's 2011 Work for which reimbursement is sought; (b) certification from Tenant's architect that the portion of the Tenant's 2011 Work for which reimbursement is being sought has been completed substantially in accordance with the plans and specifications therefor (approved by Landlord, to the extent Landlord's approval of such plans and specifications was required under Article 15 of the Original Lease, as amended by this Agreement) and all local governmental and quasi-governmental authorities with jurisdiction ("Tenant's 2011 Completion Notice"); and (c) where final payment is being sought, a copy of the building permit for Tenant's 2011 Work, if applicable, signed by the appropriate building inspector, indicating that Tenant's 2011 Work has been finally approved. The 2011 Allowance shall be available for reimbursement to Tenant in not more than five (5) disbursements during the period from November 1, 2011 through October 31, 2013 (the "2011 Allowance Window"). Any portion of the 2011 Allowance not requested by Tenant within the 2011 Allowance Window shall be deemed forfeited by Tenant and shall no longer be available for disbursement to or for the account of Tenant.

While Tenant completes the Tenant's 2011 Work, Tenant may store existing furniture and work stations in an on-site storage container (the "Container") located in the parking lot of the Building. The exact location of the Container in the parking lot shall be subject to the Landlord's approval, which may be withheld in its sole and absolute discretion. Tenant shall use its best efforts to minimize the time that the Container is in use and shall promptly remove the Container once it is no longer needed; provided that (a) in no event shall the Container be located in the

parking lot for more than a single period of ninety (90) consecutive days, and (b) in any event, Tenant shall remove the Container from the Building parking lot immediately after the Tenant's 2011 Work is completed. Tenant shall pay Landlord within thirty (30) days of demand any costs incurred by Landlord to repair any damage to the parking lot caused by Tenant's delivery, removal and or placement of the Container in the parking lot. The Container shall be part of the Premises for the purpose of Articles 13 and 21 of the Lease. The Container and any furniture, work stations or other items stored in the Container shall be stored at the Tenant's own risk and in no event shall the Landlord be liable for such items.

Notwithstanding the foregoing, to the extent Tenant is required under the Lease to reimburse Landlord for the cost of repairs to the HVAC system through Operating Expenses or otherwise, Tenant shall have the right, but not the obligation, to apply the remaining 2011 Allowance (or a portion thereof) towards the cost of such repairs. In addition, Tenant shall have the right, but not the obligation, to replace one or more of the HVAC units serving the Building at any time during the 2011 Allowance Window and apply the remaining 2011 Allowance (or a portion thereof) towards the cost of such replacement. If Tenant shall elect to make such replacement, Tenant shall perform the same in a good and workmanlike manner, but such replacement by Tenant shall not shift the burden of repair and maintenance of the new HVAC units from Landlord to Tenant. In that regard, Landlord shall remain responsible for the repair and maintenance of the new HVAC units in the same manner as Landlord would be responsible for the repair and maintenance of the existing HVAC units.

5. The Extension Option in Article 51 of the Original Lease shall continue to apply during the Second Extension Term, except that the term "Initial Lease Term" shall be replaced with "Second Extension Term" each place it appears in Article 51.

6. Except as otherwise provided herein, all of the terms and conditions of the Original Lease shall continue to apply during the Second Extension Term; provided, however, that there shall be no rent credit, and that there shall be no improvement allowance, Landlord construction obligations or other initial concessions with respect to the Second Extension Term, except as provided in this Agreement, and Tenant shall have no further option to extend the term except as provided in Section 5 of this Agreement.

7. Landlord hereby represents and warrants to Tenant that it has dealt with no broker, finder or similar person in connection with this Agreement, and Tenant hereby represents and warrants to Landlord that it has dealt with no broker, finder or similar person in connection with this Agreement, other than Harvest Properties ("Landlord's Broker") and Colliers International ("Tenant's Broker"). Landlord and Tenant shall each defend, indemnify and hold the other harmless with respect to all claims, causes of action, liabilities, losses, costs and expenses (including without limitation attorneys' fees) arising from a breach of the foregoing representation and warranty. The commission with respect to this Agreement shall be paid to Landlord's Broker by Landlord pursuant to a separate agreement. Landlord's Broker will pay Tenant's Broker a commission pursuant to a separate agreement. Nothing in this Agreement shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker.

8. As additional consideration for this Agreement, Tenant hereby certifies that:

- (a) The Original Lease (as amended hereby) is in full force and effect.

(b) Tenant is in possession of the Premises.

(c) Rent has been paid through December 31, 2011.

(d) To Tenant's knowledge, without the duty of inquiry, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

(e) All of Landlord's obligations with respect to construction of tenant improvements in the Premises and payment of Tenant improvement allowances have been satisfied, except those provided for in Section 4 of this Agreement.

(f) To Tenant's knowledge, without the duty of inquiry, there are no existing offsets or defenses which Tenant has against the enforcement of the Original Lease (as amended hereby) by Landlord.

9. As additional consideration for this Agreement, Landlord hereby certifies that:

(a) The Original Lease (as amended hereby) is in full force and effect.

(b) To Landlord's knowledge, without the duty of inquiry, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

10. Except as specifically provided herein, the terms and conditions of the Original Lease as amended hereby are confirmed and continue in full force and effect. This Agreement shall be binding on the heirs, administrators, successors and assigns (as the case may be) of the parties hereto. This Agreement sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any free rent concession, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided to Tenant in connection with entering into the Original Lease, unless specifically set forth in this Agreement. In the case of any inconsistency between the provisions of the Original Lease and this Agreement, the provisions of this Agreement shall govern and control. Submission of this Agreement by Landlord is not an offer to enter into this Agreement. Neither party shall be bound by this Agreement until both Landlord and Tenant have executed and delivered the same to the other. Time is of the essence of this Agreement and the provisions contained herein.

11. Effective as of the date hereof, all references to the "Lease" shall refer to the Original Lease, as amended by this Agreement.

12. Landlord represents that each of Landlord and its officers and directors is not identified on the list of specialty designated nationals and blocked persons subject to financial sanctions that is maintained by the U.S. Treasury Department, Office of Foreign Assets Control and any other similar list maintained by the Office of Foreign Assets Control pursuant to any authorizing United States law, regulation or Executive Order of the President of the United States ("OFAC List") nor is Landlord or its officers or directors subject to trade embargo or economic sanctions pursuant to any authorizing United States law, regulation or Executive Order of the President of the United States.

13. Tenant represents that each of Tenant and its officers and directors is not identified on the OFAC List nor is Tenant or its officers and directors subject to trade embargo or economic sanctions pursuant to any authorizing United States law, regulation or Executive Order of the President of the United States.

14. To satisfy compliance with the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and Section 4975(c) of the Internal Revenue Code, Tenant hereby certifies that the representations and warranties in Section 13 of the Second Amendment are true and correct as of the date of this Agreement.

IN WITNESS WHEREOF, this Agreement was executed as of the date first above written.

Landlord:

WESTPORT OFFICE PARK, LLC, a California limited liability company

By: THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, a New Jersey corporation, its member

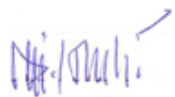
By: _____
Kristin Paul
Vice President

[Printed Name and Title]

By: _____ /s/ Jeffrey D. Mills
Jeffrey D. Mills
Vice President

Tenant:

QUALYS, INC., a Delaware corporation

By:  _____

Its: _____ CEO

By:  _____

Its: _____ CFO

If Tenant is a corporation, this instrument must be executed by the chairman of the board, the president or any vice president and the secretary, any assistant secretary, the chief financial officer or any assistant financial officer or any assistant treasurer of such corporation, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which case the bylaws or a certified copy of the resolution, as the case may be, must be attached to this instrument.



2011 CORPORATE BONUS PLAN

1. Purpose. The purpose of this Bonus Plan is to motivate and encourage the employees of Qualys to achieve its stated goals and to assist the Company in attracting, motivating and retaining employees on a competitive basis.

2. Eligibility

(a) An officer or employee of the Company is designated as a Participant in the Plan and shall be eligible to participate in the Plan if he or she is a regular full-time or regular part-time employee (working greater than 20 hours a week) and he or she is not already participating in a separate Compensation Plan or MBO plan.

(b) **New Hires.** New employees hired in the first or second month of a quarter will be eligible to participate in the Plan for that quarter, such participation prorated based on the number of days employed in the quarter

(c) **Termination of Employment.** To be eligible for the bonus the employee must be employed as of the last day of the quarter.

(d) **Absence during Performance Period.** If a Participant is absent for a period of more than one-half of the scheduled workdays during a quarter, for any reason, the Participant's bonus payment will be prorated based on the number of days the Participant actually worked compared to the total number of scheduled work days during that quarter.

3. Bonus Criteria

(a) **Bonus Period.** The Bonus Plan is effective from January 1, 2011 through December 31, 2011. Each calendar quarter is a separate bonus period.

(b) **Bonus Level.** A Participant's level of participation in the Plan is set based on their grade level as determined by the Human Resources Department and is applied to the Participant's base salary as of the last day of that quarter to determine the bonus amount.

(c) **Objective Criteria: ASV Growth.** The stated goal is the growth in company-wide bookings as represented by Annual Subscription Value (ASV) for the current quarter over the same quarter of the prior year. ASV is the sum of one year's worth of subscribed revenues to Qualys for all new, renewal and upsell subscriptions contracted by customers and channel partners in each quarter. ASV is determined by policies and practices administered by the Controller and the final quarterly ASV amount is approved by the CFO.

(d) **Payout Calculation.** A Participant's bonus amount will be equal to 100% if the company-wide ASV is 22% or greater than it was in the same quarter of the prior year; the bonus will be equal to 25% if the company-wide ASV is 12% greater than it was in the same quarter of the prior year;

For ASV growth achievement between 12% and 17%, a sliding scale will be used by adding 5% to the bonus calculation for each additional whole percentage point of ASV growth achieved. For ASV growth achievement between 17% and 22%, a sliding scale will be used by adding 10% to the bonus calculation for each additional whole percentage point of ASV growth achieved. Here is the current year payout schedule:

| <u>ASV Growth</u> | <u>Payment percentage</u> |
|-----------------------|-------------------------------|
| 12% | 25% |
| 13% | 30% |
| 14% | 35% |
| 15% | 40% |
| 16% | 45% |
| 17% | 50% |
| 18% | 60% |
| 19% | 70% |
| 20% | 80% |
| 21% | 90% |
| 22% | 100% |

(e) **Bonus Payments.** Bonus payments to Participants under this Plan will be made with the scheduled payroll at the end of the first month following the end of the calendar quarter. For example, the bonus payment for the quarter ending March 31 will be paid by April 30. Bonus payments are "gross" amounts, meaning that they constitute the full amount and that there will be no other increases (for example, to cover income taxes). The company will deduct from any payment under the Plan the amount of all applicable income and employment taxes, and any other amounts required by law to be withheld or deducted from such payment. None of the payments will be "benefits bearing" (i.e., the bonus amounts will not be used for purposes of determining any other company-provided benefits or compensation).

4. Administration. This Plan shall be administered by the Company's CFO, who may make and apply such rules deemed desirable or necessary to administer the Plan in the best interests of the Company. All questions of interpretation or application of the Plan may be addressed in writing to CFO, who shall review each inquiry in good faith, and each such determination shall be final and binding.

**2012 CORPORATE BONUS PLAN**

1. Purpose. The purpose of this Bonus Plan is to motivate and encourage the employees of Qualys to achieve its stated goals and to assist the Company in attracting, motivating and retaining employees on a competitive basis.

2. Eligibility

(a) An officer or employee of the Company is designated as a Participant in the Plan and shall be eligible to participate in the Plan if he or she is a regular full-time or regular part-time employee (working greater than 20 hours a week) and he or she is not already participating in a separate Compensation Plan or MBO plan.

(b) **New Hires.** New employees hired in the first or second month of a quarter will be eligible to participate in the Plan for that quarter, such participation prorated based on the number of days employed in the quarter

(c) **Termination of Employment.** To be eligible for the bonus the employee must be employed as of the last day of the quarter.

(d) **Absence during Performance Period.** If a Participant is absent for a period of more than one-half of the scheduled workdays during a quarter, for any reason, the Participant's bonus payment will be prorated based on the number of days the Participant actually worked compared to the total number of scheduled work days during that quarter.

3. Bonus Criteria

(a) **Bonus Period.** The Bonus Plan is effective from January 1, 2012 through December 31, 2012. Each calendar quarter is a separate bonus period.

(b) **Bonus Level.** A Participant's level of participation in the Plan is set based on their grade level as determined by the Human Resources Department and is applied to the Participant's base salary as of the last day of that quarter to determine the bonus amount.

(c) **Objective Criteria: ASV Growth.** The stated goal is the growth in company-wide bookings as represented by Annual Subscription Value (ASV) for the current quarter over the same quarter of the prior year. ASV is the sum of one year's worth of subscribed revenues to Qualys for all new, renewal and upsell subscriptions contracted by customers and channel partners in each quarter. ASV is determined by policies and practices administered by the Controller and the final quarterly ASV amount is approved by the CFO.

(d) **Payout Calculation.** A Participant's bonus amount will be equal to 100% if the company-wide ASV is [***]% or greater than it was in the same quarter of the prior year; the bonus will be equal to 25% if the company-wide ASV is [***]% greater than it was in the same quarter of the prior year;

Confidential Treatment Requested

For ASV growth achievement between [***]% and [***]%, a sliding scale will be used by adding 5% to the bonus calculation for each additional whole percentage point of ASV growth achieved. For ASV growth achievement between [***]% and [***]%, a sliding scale will be used by adding 10% to the bonus calculation for each additional whole percentage point of ASV growth achieved. Here is the current year payout schedule:

| <u>ASV Growth</u> | <u>Payment percentage</u> |
|-----------------------|-------------------------------|
| [***]% | 25% |
| [***]% | 30% |
| [***]% | 35% |
| [***]% | 40% |
| [***]% | 45% |
| [***]% | 50% |
| [***]% | 60% |
| [***]% | 70% |
| [***]% | 80% |
| [***]% | 90% |
| [***]% | 100% |

(e) **Bonus Payments.** Bonus payments to Participants under this Plan will be made with the scheduled payroll at the end of the first month following the end of the calendar quarter. For example, the bonus payment for the quarter ending March 31 will be paid by April 30. Bonus payments are “gross” amounts, meaning that they constitute the full amount and that there will be no other increases (for example, to cover income taxes). The company will deduct from any payment under the Plan the amount of all applicable income and employment taxes, and any other amounts required by law to be withheld or deducted from such payment. None of the payments will be “benefits bearing” (i.e., the bonus amounts will not be used for purposes of determining any other company-provided benefits or compensation).

4. Administration. This Plan shall be administered by the Company’s CFO, who may make and apply such rules deemed desirable or necessary to administer the Plan in the best interests of the Company. All questions of interpretation or application of the Plan may be addressed in writing to CFO, who shall review each inquiry in good faith, and each such determination shall be final and binding.

[***] Information has been omitted and filed separately with the Securities and Exchange Commission. Confidential Treatment has been requested with respect to the omitted portions.

List of Subsidiaries of the Company

| | |
|---------------------------------------|----------------------|
| Qualys GmbH | Germany |
| Qualys Ltd. | United Kingdom |
| Qualys Technologies SA | France |
| Qualys FZE | United Arab Emirates |
| Qualys Canada | Canada |
| Qualys Brazil Ltda | Brazil |
| Qualys Mexico | Mexico |
| Qualys Japan KK | Japan |
| Qualys Hong Kong Ltd. | Hong Kong |
| Qualys Singapore Pvt. Ltd. | Singapore |
| Qualys Security techServices Pte Ltd. | India |
| Qualys Security TechServices Pte Ltd. | India |
| Qualys International, Inc. | United States |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated June 8, 2012, with respect to the consolidated financial statements of Qualys, Inc. contained in the Registration Statement and Prospectus. We consent to the use of the aforementioned report in the Registration Statement and Prospectus, and to the use of our name as it appears under the caption "Experts."

/s/ GRANT THORNTON LLP

San Francisco, California
June 8, 2012

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated November 2, 2010, with respect to the financial statements of Nemean Networks, LLC as of August 31, 2010 and for the eight month period ended August 31, 2010 and for the period from May 18, 2007 (date of inception) through August 31, 2010 contained in the Registration Statement and Prospectus of Qualys, Inc. We consent to the use of the aforementioned report in the Registration Statement and Prospectus of Qualys, Inc., and to the use of our name as it appears under the caption "Experts."

/s/ GRANT THORNTON LLP

Appleton, WI
June 8, 2012