Qualys, Inc.
2021 Annual Report

Qualys, Inc.
2022 Proxy Statement

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held at 11:00 a.m. Pacific Daylight Time on Wednesday, June 8, 2022

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

The 2022 Annual Meeting of Stockholders of Qualys, Inc., a Delaware corporation, will be held online on **Wednesday, June 8, 2022, at 11:00 a.m. Pacific Daylight Time**.

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

www.virtualshareholdermeeting.com/QLYS2022

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

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

1. To elect two Class I directors to serve until the 2025 annual meeting of stockholders or until their successors are duly elected and qualified;
2. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for our fiscal year ending December 31, 2022;
3. To approve, on an advisory and non-binding basis, the compensation of our named executive officers as described in the proxy statement;
4. To approve the Qualys, Inc. 2012 Equity Incentive Plan, as amended, restated and extended; and
5. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The board of directors of Qualys, Inc. has fixed the close of business on April 11, 2022 as the record date for the meeting. Only stockholders of record of our common stock on April 11, 2022 are entitled to notice of and to vote at the meeting. Further information regarding voting rights and the matters to be voted upon is presented in the accompanying proxy statement.

On or about April 21, 2022, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the “Notice”) containing instructions on how to access the proxy statement for the 2022 annual meeting and our 2021 annual report to stockholders. The Notice provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of proxy materials by mail. The proxy statement and our annual report can also be accessed directly at **www.proxyvote.com**. All you have to do is enter the control number located on the Notice or your proxy card.

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

We appreciate your continued support of Qualys, Inc.

By order of the Board of Directors,

/s/ Sumedh Thakar

Sumedh Thakar
Director, President and Chief Executive Officer
Foster City, California
April 21, 2022

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PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
to be held on Wednesday, June 8, 2022 at 11:00 a.m. Pacific Daylight Time

This proxy statement and the enclosed form of proxy are furnished in connection with the solicitation of proxies by the board of directors of Qualys, Inc. ("we," "Qualys," or the "Company") for use at our annual meeting of stockholders (the "Annual Meeting") to be held on June 8, 2022, at 11:00 a.m. Pacific Daylight Time, and any postponements, adjournments or continuations thereof. The Annual Meeting will be held online at **www.virtualshareholdermeeting.com/QLYS2022**, where stockholders will be able to listen to the meeting live, vote and submit questions. There will be no physical location for stockholders to attend the meeting.

On or about April 21, 2022, we expect to mail to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access this proxy statement and our 2021 annual report to stockholders.

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

How can I participate in the Annual Meeting?

To participate in the Annual Meeting, visit **www.virtualshareholdermeeting.com/QLYS2022** and enter your control number as indicated. You can find your control number on your Notice, proxy card (if you received a printed copy of the proxy materials) or the instructions that accompanied your proxy materials. You will be able to log into the virtual meeting platform beginning at 10:45 a.m. Pacific Daylight Time on June 8, 2022. The meeting will begin promptly at 11:00 a.m. Pacific Daylight Time on June 8, 2022. We encourage you to log into the virtual meeting platform and ensure you can hear streaming audio prior to the meeting start time.

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

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

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

Other stockholders and members of the public can also access the Annual Meeting at the URL above without a control number, but without the right to vote or submit a question.

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

In accordance with the rules of the Securities and Exchange Commission ("SEC"), we have elected to furnish our proxy materials, including this proxy statement and our 2021 annual report to stockholders, primarily via the Internet. On or about April 21, 2022, we expect to mail to our stockholders the Notice, which contains instructions on how to access our proxy materials on the Internet, vote at the meeting, and request printed copies of the proxy materials. Stockholders may request to receive all future proxy materials in printed form by mail or electronically by e-mail by following the instructions contained in the Notice. We encourage stockholders to take advantage of the availability of the proxy materials on the Internet to help reduce the environmental impact of our annual meetings.

What matters am I voting on?

You will be voting on:

- the election of two Class I directors to hold office until the 2025 annual meeting of stockholders or until their successors are duly elected and qualified;
- a proposal to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2022;
- a proposal to approve, on an advisory and non-binding basis, the compensation of our named executive officers as described in this proxy statement;
- a proposal to approve our 2012 Equity Incentive Plan, as amended, restated and extended; and
- any other business that may properly come before the meeting.

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

Our board of directors recommends a vote:

- **FOR** each of the nominees named in this proxy statement for election as Class I directors;
- **FOR** the ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2022;
- **FOR** the compensation of our named executive officers as described in this proxy statement; and
- **FOR** the approval of our 2012 Equity Incentive Plan, as amended, restated and extended.

Who is entitled to vote?

Holders of our common stock as of the close of business on April 11, 2022, the record date, may vote at the Annual Meeting. As of the record date, we had 38,860,012 shares of common stock outstanding. In deciding all matters at the Annual Meeting, each stockholder will be entitled to one vote for each share of common stock held on the record date. We do not have cumulative voting rights for the election of directors. A list of stockholders entitled to vote at the Annual Meeting will be made available for the examination of any stockholder for any purpose germane to the meeting for ten days prior to the Annual Meeting by email request to ir@qualys.com. The list will also be available for examination online during the meeting at **www.virtualshareholdermeeting.com/QLYS2022**.

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

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

How do I vote?

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

- **Via the Internet—Before the Annual Meeting**. You may vote at **www.proxyvote.com**, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Daylight Time on June 7, 2022. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **Via the Internet—During the Annual Meeting**. You may vote live at the Annual Meeting through the virtual meeting platform by logging into **www.virtualshareholdermeeting.com/QLYS2022**. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **By Telephone**. You may vote using a touch-tone telephone by calling 1-800-690-6903, 24 hours a day, seven days a week, until 11:59 p.m. Eastern Daylight Time on June 7, 2022. You will need the control number included on your Notice or your proxy card (if you received a printed copy of the proxy materials).
- **By Mail**. If you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received and returning it in the prepaid envelope. Sign your name exactly as it appears on the proxy card. Proxy cards submitted by mail must be received no later than June 7, 2022, to be voted at the Annual Meeting.

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

Can I change my vote?

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

- entering a new vote by Internet or by telephone (only your latest Internet or telephone proxy received by 11:59 p.m. Eastern Daylight Time on June 7, 2022, will be counted);

- signing and returning a new proxy card with a later date to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Blvd., 4th Floor, Foster City, California 94404, to be received no later than June 7, 2022;
- delivering a written revocation to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Blvd., 4th Floor, Foster City, California 94404, to be received no later than June 7, 2022; or
- participating in the Annual Meeting live via the Internet and voting again.

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

What is the effect of giving a proxy?

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

What is a quorum?

A quorum is the minimum number of shares required to be present at a meeting of stockholders for action to be taken at the meeting. Under our bylaws, the presence, live or represented by proxy (including any abstentions and “broker non-votes”), of a majority of all issued and outstanding shares of common stock entitled to vote at the Annual Meeting will constitute a quorum at the meeting.

What are “broker non-votes”?

When a broker, bank or other nominee votes a client’s shares on some but not all of the proposals, the missing votes are referred to as “broker non-votes.” If you are a beneficial owner and do not provide timely voting instructions to your bank, broker or other nominee, that organization will have discretion to vote your shares on our sole “routine” matter—Proposal No. 2 to ratify the appointment of Grant Thornton LLP. The election of directors, the advisory vote to approve executive compensation and the proposal to approve our 2012 Equity Incentive Plan, as amended, restated and extended are non-discretionary items and may not be voted on by brokers, banks or other nominees who have not received specific voting instructions from beneficial owners. Therefore, broker non-votes may exist in connection with Proposals No. 1, No. 3 and No. 4.

How many votes are needed for approval of each matter?

- *Proposal No. 1:* The election of directors requires a plurality of the votes cast at the meeting, meaning that the individuals who receive the largest number of votes cast “for” their election are elected as directors. As a result, any shares not voted “for” a particular nominee (whether as a result of “withhold” votes or broker non-votes) will not be counted in such nominee’s favor and will have no effect on the outcome of the election. You may vote “for” or “withhold” on each of the nominees for election as a director.

- *Proposal No. 2:* The ratification of the appointment of Grant Thornton LLP must receive the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon to be approved. You may vote "for," "against" or "abstain" on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes "against" this proposal.
- *Proposal No. 3:* The approval, on an advisory and non-binding basis, of the compensation of our named executive officers as described in this proxy statement must receive the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon to be approved. You may vote "for," "against" or "abstain" on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes "against" this proposal. Broker non-votes will have no effect on the outcome of this proposal because they represent shares that are not entitled to vote on the matter.
- *Proposal No. 4:* The approval of our 2012 Equity Incentive Plan, as amended, restated and extended must receive the affirmative vote of a majority of the shares present in person or by proxy at the meeting and entitled to vote thereon to be approved. You may vote "for," "against" or "abstain" on this proposal. Abstentions represent shares present and entitled to vote and thus, will have the same effect as votes "against" this proposal. Broker non-votes will have no effect on the outcome of this proposal because they represent shares that are not entitled to vote on the matter. If stockholders do not approve Proposal No. 4, then our 2012 Equity Incentive Plan, as amended, restated and extended will not become effective.

How are proxies solicited for the Annual Meeting?

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

Is my vote confidential?

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

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

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

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

We have adopted a procedure called "householding," which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, the proxy materials to multiple stockholders who share the same address unless we received contrary instructions from one or more of the stockholders. This procedure reduces our printing costs, mailing costs, and fees. Stockholders who participate in householding will continue to be able to access and receive separate proxy cards.

Upon written or oral request, we will deliver promptly a separate copy of the Notice and, if applicable, the proxy materials to any stockholder at a shared address to which we delivered a single copy of any of these documents. To receive a separate copy, or, if you are receiving multiple copies, to request that Qualys only send a single copy, of the Notice and, if applicable, the proxy materials, stockholders may contact us as follows:

Qualys, Inc.
Attention: Investor Relations
919 East Hillsdale Boulevard, 4th Floor
Foster City, California 94404
(650) 801-6100
ir@qualys.com

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

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

Stockholder Proposals

Stockholders may present proper proposals for inclusion in our proxy statement and for consideration at the next annual meeting of stockholders by submitting their proposals in writing to our Corporate Secretary in a timely manner. For a stockholder proposal to be considered for inclusion in our proxy statement for our 2023 annual meeting of stockholders, our Corporate Secretary must receive the written proposal at our principal executive offices not later than December 22, 2022. In addition, stockholder proposals must comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

Qualys, Inc.
Attention: Corporate Secretary
919 East Hillsdale Boulevard, 4th Floor
Foster City, California 94404

Our bylaws also establish an advance notice procedure for stockholders who wish to present a proposal before an annual meeting of stockholders but do not intend for the proposal to be included in our proxy statement for that meeting. Our bylaws provide that the only business that may be conducted at an annual meeting is business that is (i) specified in our proxy materials with respect to such meeting, (ii) otherwise properly brought before the meeting by or at the direction of our board of directors, or (iii) properly brought before the meeting by a stockholder who (A) is a stockholder of record at the time of giving the required notice and on the record date for the determination of stockholders entitled to vote at the annual meeting and (B) has delivered timely written notice to our Corporate Secretary, which notice must contain the information specified in our bylaws. To be timely for our 2023 annual meeting of stockholders, our Corporate Secretary must receive the written notice at our principal executive offices:

- not earlier than February 5, 2023; and
- not later than the close of business on March 7, 2023.

In the event that we hold our 2023 annual meeting of stockholders more than 30 days before or more than 60 days after the one-year anniversary of the date of the Annual Meeting, then notice of a stockholder proposal that is not intended to be included in our proxy statement must be received no earlier than the close of business on the 120th day before such annual meeting and no later than the close of business on the later of the following two dates:

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

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

Nomination of Director Candidates

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

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

In addition to satisfying the foregoing requirements under our bylaws, to comply with the universal proxy rules (once effective), stockholders who intend to solicit proxies in support of director nominees other than Qualys' nominees must provide notice to our Corporate Secretary that sets forth the information required by Rule 14a-19 under the Exchange Act no later than April 9, 2023.

Availability of Bylaws

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

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

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

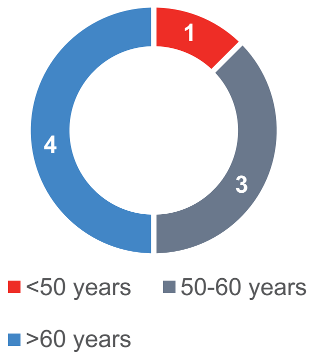
Class I Directors (Term Expires at Annual Meeting)	**Class II Directors** (Term Expires in 2023)	**Class III Directors** (Term Expires in 2024)
Sandra E. Bergeron	General Peter Pace	William Berutti
Kristi M. Rogers	Wendy M. Pfeiffer	Jeffrey P. Hank
	John Zangardi	Sumedh S. Thakar

The following table sets forth the names, ages as of April 21, 2022, and certain other information for each of the nominees for election as a director and for each of the continuing members of our board of directors. Mr. Berutti, who joined our board of directors in November 2021, was recommended to the Nominating and ESG Committee for consideration as a potential director by an independent search firm.

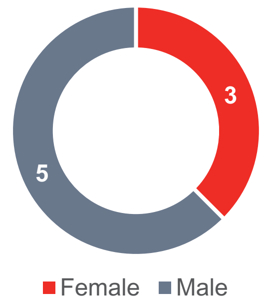
Name	Independent	Director Since	Age	Other Public Co. Boards	Audit & Risk Committee	Compensation & Talent Committee	Nominating & ESG Committee
Nominees for Director							
Sandra E. Bergeron *Chair of the Board*	✓	2006	63	2			
Kristi M. Rogers	✓	2013	52	0		👤	CHAIR
Continuing Directors							
William Berutti	✓	2021	52	0		👤	
Jeffrey P. Hank	✓	2010	62	0	CHAIR		
General Peter Pace	✓	2009	76	2		👤	👤
Wendy M. Pfeiffer	✓	2019	56	0	👤		👤
Sumedh S. Thakar *President & CEO*	.	2021	46	0			
John Zangardi	✓	2020	61	0	👤	CHAIR	

Composition of the Board

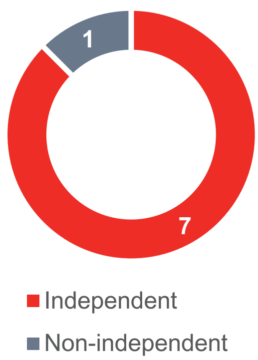
Age



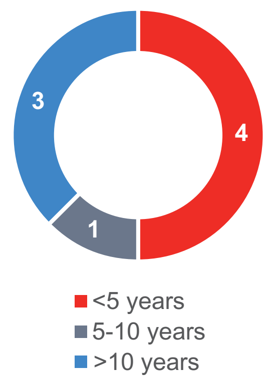
Gender



Independence



Tenure



Board Diversity Matrix (as of April 21, 2022)

Total Number of Directors		**8**		
Gender Identity	**Female**	**Male**	**Non-Binary**	**Not Disclosed**
Number of Directors based on Gender Identity	3	5	—	—
Number of Directors who identify in any categories below:				
Asian	—	1	—	—
White	3	4	—	—

Board Skills and Experience Matrix

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

Cybersecurity Industry Expertise
Deep insight in the cybersecurity, technology and information security industries to oversee our business and the risks we face.

4

Cloud Software Industry Experience
Deep experience in the cloud software industry with similar operational and financial models.

3

Senior Leadership
Experience in senior leadership positions to analyze, advise and oversee management in decision making, operations and policies.

5

Financial Knowledge and Expertise
Knowledge of financial markets, financial reporting and accounting, and financing and investing activities.

3

Diverse Backgrounds
Diverse backgrounds and experiences that provide unique perspectives and enhance decision-making.

4

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

3

Strategic Planning
Experience overseeing the development and implementation of strategic priorities.

7

Governance and Risk Oversight
Experience in in public company corporate governance, risk oversight and management.

6

Public Company Board Service
Has served, or is currently serving, on a public company board as an independent or executive director; does not include service on our board of directors.

2

Information Concerning Director Nominees

Sandra E. Bergeron has served as a director of Qualys since June 2006, including as Chair of the Board since June 2021 and as Lead Independent Director from July 2018 to June 2021. From 2004 until 2012, Ms. Bergeron was a venture partner at Trident Capital, Inc., a venture capital firm. Ms. Bergeron currently serves on the board of directors of F5, Inc. and the board of directors of Sumo Logic, Inc. Ms. Bergeron previously served on the board of directors of ArcSight, Inc. until it was acquired by Hewlett-Packard Company in September 2010, on the board of directors of Sophos Group Plc until it was acquired by a private equity firm in March 2020, and on the board of directors of TriCipher, Inc. from 2004 to 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.

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

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

Information Concerning Continuing Directors

William Berutti has served as a director of Qualys since November 2021. Mr. Berutti served as Chief Executive Officer of Plex Systems, Inc., a cloud manufacturing software company, from November 2018 to November 2021. From October 2016 to November 2018, Mr. Berutti served as President of multiple operating units within BMC Software, an enterprise software company. Mr. Berutti also currently serves, and has served, on the boards of directors of multiple private companies. Mr. Berutti holds a Bachelor of Science degree in Business from Miami University.

We believe that Mr. Berutti possesses specific attributes that qualify him to serve as a member of our board of directors, including his executive experience at technology companies.

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

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

General Peter Pace has served as a director of Qualys since May 2009. From June 1967 until October 2007, Gen. Pace served in the United States Marine Corps, including as Chairman of the Joint Chiefs of Staff. Since October 2007, Gen. Pace has been a principal at Pace Ventures LLC. Gen. Pace currently serves on the board of directors of AAR Corp. and the board of directors of Rigetti Computing, Inc. Gen. Pace previously served on the board of directors of Pike Corporation from

February 2010 until it was taken private in December 2014, on the board of directors of LaserLock Technologies, Inc. from November 2012 to February 2014, and on the board of directors of Textura Corp. from December 2012 until its acquisition by Oracle in June 2016. From January 2003 to January 2011, Gen. Pace served on the board of directors of Steve Myers and Associates Inc., and from June 2010 to June 2013, Gen. Pace served on the board of directors of Wi2Wi Inc. Gen. Pace also currently serves on the boards of directors of several private companies and previously served on the President's Intelligence Advisory Board and Secretary of Defense's Defense Policy Board. Gen. Pace holds a Bachelor of Science degree from the U.S. Naval Academy and a Master of Science degree in Business Administration from The George Washington University.

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

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

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

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

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

John Zangardi has served as a director of Qualys since June 2020. Dr. Zangardi has served as Chief Executive Officer of Redhorse Corporation, a technology services company delivering decision quality data to federal government customers, since December 2021, and as President of Redhorse Corporation since June 2020. From November 2019 to May 2020, Dr. Zangardi served as Senior Vice President of Business Initiatives and Strategic Partnerships for the Civil Group at Leidos, Inc., a science, engineering and information technology company. From November 2017 to November 2019, Dr. Zangardi served as Chief Information Officer of the Department of Homeland Security, a presidentially appointed position, where he was responsible for overseeing IT and its related security and management for the Department. Prior to that, Dr. Zangardi first served as the Principal Deputy Chief Information Officer and later as the Acting Chief Information Officer of the Department of Defense, between October 2016 to November 2017. Dr. Zangardi also served as the Deputy Assistant Secretary of the Navy for Command, Control, Communications, Computers, Intelligence, Information Operations & Space from March 2011 to September 2016. Dr. Zangardi also served additionally as the

Department of Navy CIO from 2014 to 2015. A retired Naval Flight Officer, Dr. Zangardi served in a variety of command and staff assignments during his military career. Dr. Zangardi also currently serves on the board of directors of Forcepoint, a privately held software company, and Symetrica, a privately held radiation detection company. Dr. Zangardi holds a Bachelor of Science degree in Business Administration from the University of Scranton, a Master of Science degree in Finance from the Naval Postgraduate School, and a Doctor of Philosophy degree in Public Policy from George Mason University.

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

Director 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. Berutti, Mr. Hank, Gen. Pace, Ms. Pfeiffer, Ms. Rogers and Dr. Zangardi do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is “independent” as that term is defined under the applicable rules and regulations of the SEC and the Listing Rules (the “Nasdaq Listing Rules”) of The Nasdaq Stock Market LLC (“Nasdaq”). In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock held by each non-employee director.

Independent Chair of the Board

Our board of directors does not have a policy on whether the roles of Chairperson of our board of directors and Chief Executive Officer should be separate. Our board believes it should be free to determine what is best for the Company at a given point in time. Ms. Bergeron, an independent, non-employee director, has served as Chair of the Board since June 2021. Ms. Bergeron previously served as our lead independent director from July 2018 to June 2021. Our board has determined that the separation of the roles of Chair of the Board and Chief Executive Officer is appropriate at this time, as it allows our Chief Executive Officer to focus primarily on management responsibilities and corporate strategy, while allowing the Chair to focus on leadership of the board, providing feedback and advice to the Chief Executive Officer, and providing a channel of communication between board members and our Chief Executive Officer. Our board currently does not have a lead independent director because the Chair is an independent director.

Board Meetings and Committees

During the year ended December 31, 2021, our board of directors held 8 meetings (including regularly scheduled and special meetings), our Audit and Risk Committee held 8 meetings, our Compensation and Talent Committee held 5 meetings, and our Nominating and ESG Committee held 3 meetings. Each incumbent director attended at least 75% of the total number of meetings of our board of directors and the committees of which he or she was a member during 2021.

Although we do not have a formal policy regarding attendance by members of our board of directors at annual meetings of stockholders, we encourage, but do not require, directors to attend. Ms. Bergeron, Ms. Rogers, Mr. Thakar and Dr. Zangardi, representing four of our then current seven directors, attended our 2021 annual meeting of stockholders.

Our board of directors has three standing committees: an Audit and Risk Committee, a Compensation and Talent Committee, and a Nominating and ESG Committee. The composition and responsibilities of each of these committees is described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit and Risk Committee

Our Audit and Risk Committee consists of Mr. Hank, Ms. Pfeiffer and Dr. Zangardi, with Mr. Hank serving as Chair. Our board of directors has determined that all members of the Audit and Risk Committee (i) are independent under the Nasdaq Listing Rules and Rule 10A-3(b)(1) of the Exchange Act, and (ii) meet Nasdaq's financial knowledge and sophistication requirements. In addition, our board of directors has determined that Mr. Hank is an audit committee financial expert within the meaning of the rules and regulations of the SEC. Among other responsibilities, our Audit and Risk Committee:

- selects and hires a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- helps to ensure the independence and performance of the independent registered public accounting firm;
- discusses the scope and results of the audit with the independent registered public accounting firm, and reviews, with management and the independent accountants, our interim and year-end operating results;
- oversees procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviews our policies on risk assessment and risk management pertaining to financial, accounting, insurance coverage, investment, tax, and operational infrastructure, including security, data privacy, reliability, business continuity and capacity matters;
- reviews related party transactions;
- obtains and reviews a report by the independent registered public accounting firm at least annually, that describes our internal quality-control procedures, any material issues with such procedures, and any steps taken to deal with such issues; and
- approves (or, as permitted, pre-approves) all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

Our Audit and Risk Committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the Nasdaq Listing Rules. A copy of the Audit and Risk Committee charter is available on our website at http://investor.qualys.com.

Compensation and Talent Committee

Our Compensation and Talent Committee consists of Mr. Berutti, Gen. Pace, Ms. Rogers and Dr. Zangardi, with Dr. Zangardi serving as Chair. Our board of directors has determined that all members of the Compensation and Talent Committee (i) are independent under the Nasdaq Listing Rules, and (ii) are "non-employee directors", as defined in Rule 16b-3 promulgated under the Exchange Act. Among other responsibilities, our Compensation and Talent Committee:

- reviews, approves and determines, or makes recommendations to our board of directors regarding, the compensation of our executive officers;
- administers our stock and equity incentive plans;

- reviews and approves and makes recommendations to our board of directors regarding incentive compensation and equity plans;
- establishes and reviews general policies relating to compensation and benefits of our employees;
- reviews our succession planning process for members of our executive management team; and
- discharges the responsibilities of our board of directors relating to the development and implementation of policies and strategies regarding talent diversity and inclusion.

Our Compensation and Talent Committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the Nasdaq Listing Rules. A copy of the Compensation and Talent Committee charter is available on our website at http://investor.qualys.com.

__Nominating and ESG Committee__

Our Nominating and ESG Committee consists of Gen. Pace, Ms. Pfeiffer and Ms. Rogers, with Ms. Rogers serving as Chair. Our board of directors has determined that all members of the Nominating and ESG Committee are independent under the Nasdaq Listing Rules. Among other responsibilities, our Nominating and ESG Committee:

- identifies, evaluates and selects, or makes recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;
- considers and makes recommendations to our board of directors regarding the composition of our board of directors and its committees;
- oversees our corporate governance practices;
- oversees the annual performance evaluation of our board of directors and of individual directors; and
- oversees our ESG activities, programs and public disclosure.

Our Nominating and ESG Committee operates under a written charter that was adopted by our board of directors and satisfies the applicable rules of the SEC and the Nasdaq Listing Rules. A copy of the Nominating and ESG Committee charter is available on our website at http://investor.qualys.com.

Compensation Committee Interlocks and Insider Participation

During fiscal 2021, Sandra Bergeron, William Berutti, Kristi Rogers, General Peter Pace, and John Zangardi served as members of our Compensation and Talent Committee. None of them is or has been an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the compensation committee or director (or other board committee performing equivalent functions or, in the absence of any such committee, the entire board of directors) of any entity that has one or more executive officers serving on our Compensation and Talent Committee or our board of directors.

Considerations in Evaluating Director Nominees

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

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

Stockholder Recommendations for Nominations to the Board of Directors

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

A stockholder of record can nominate a candidate directly for election to our board of directors by complying with the procedures in Section 2.4(ii) of our bylaws. Any eligible stockholder who wishes to submit a nomination should review the requirements in the bylaws on nominations by stockholders. Any nomination should be sent in writing to Qualys, Inc., Attention: Corporate Secretary, 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404. Notice must be received by us no earlier than February 5, 2023, and no later than March 7, 2023. The notice must state the information required by Section 2.4(ii)(b) of our bylaws and otherwise must comply with applicable federal and state law.

Stockholder Communications with the Board of Directors

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

Corporate Governance Guidelines and Codes of Business Conduct and Ethics

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

Risk Management

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

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

While our board of directors is ultimately responsible for risk oversight, our board committees assist our board in fulfilling its oversight responsibilities in certain areas of risk. Our Audit and Risk Committee assists our board of directors in fulfilling its oversight responsibilities with respect to risk management pertaining to financial, accounting, insurance coverage, investment, tax, and operational infrastructure, including security, data privacy, reliability, business continuity and capacity matters. Our Audit and Risk Committee discusses with management and the independent auditor guidelines and policies with respect to risk assessment and risk management; reviews management's assessment of the key risks facing us, including the key controls it relies on to mitigate those risks; and monitors certain key risks at each of its regularly scheduled meetings, such as risk associated with internal control over financial reporting and liquidity risk. Our Compensation and Talent Committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking. Our Nominating and ESG Committee assists our board of directors in fulfilling its oversight responsibilities with respect to the management of risk associated with board organization, membership and structure, and ESG matters. Finally, the full board of directors reviews strategic and operational risk in the context of reports from the management team, receives reports on all significant committee activities at each regular meeting, and evaluates the risks inherent in significant transactions.

Non-Employee Director Compensation

2021 Director Compensation Table

The following table provides information regarding compensation of our non-employee directors during our fiscal year ended December 31, 2021. Directors who are also our employees receive no additional compensation for their service as a director. During 2021, Sumedh Thakar and former director Philippe Courtot were employees. Mr. Thakar and Mr. Courtot's compensation is discussed in the "*Executive Compensation*" section of this proxy statement. We reimburse our directors for expenses associated with attending meetings of our board of directors and meetings of committees of our board.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)(2)	Total ($)
Sandra E. Bergeron	65,323	203,623(3)	268,946
William Berutti	2,948(4)	430,608(5)	433,556
Jeffrey P. Hank	50,000	203,623(3)	253,623
Gen. Peter Pace	40,548	203,623(3)	244,171
Wendy M. Pfeiffer	40,231	203,623(3)	243,854
Kristi M. Rogers	38,740	203,623(3)	242,363
John Zangardi	43,365	203,623(3)	246,988

(1) The dollar amounts reported in this column represent the grant date fair value of restricted stock unit awards granted in 2021. These amounts have been calculated in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 718. The fair value of each restricted stock unit award is measured based on the closing price of our common stock on the date of grant. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For a discussion of valuation assumptions, see the stock-based compensation note to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022.

(2) As of December 31, 2021, the aggregate number of shares of our common stock underlying unvested stock awards and outstanding option awards held by each of our non-employee directors was:

Name	Aggregate Number of Shares Underlying Unvested Stock Awards	Aggregate Number of Shares Underlying Outstanding Option Awards
Sandra E. Bergeron	2,002	—
William Berutti	3,305	—
Jeffrey P. Hank	2,002	12,000
Gen. Peter Pace	2,002	—
Wendy M. Pfeiffer	3,607	—
Kristi M. Rogers	2,002	23,000
John Zangardi	4,582	—

(3) On June 9, 2021, each of Ms. Bergeron, Mr. Hank, Gen. Pace, Ms. Pfeiffer, Ms. Rogers and Dr. Zangardi was granted an award of 2,002 restricted stock units, which vest on the earlier of (i) June 9, 2022 or (ii) the day before our 2022 annual meeting of stockholders, subject to the applicable director's continued service to us.

(4) Mr. Berutti joined our board of directors on November 30, 2021. Accordingly, this reflects a pro-rata amount for his service on our board during 2021.

(5) On November 30, 2021, Mr. Berutti was granted an award of 3,305 restricted stock units, which vest in three equal annual installments on each of the first three anniversaries of December 1, 2021, subject to Mr. Berutti's continued service to us.

Non-Employee Director Compensation Program

Our Compensation and Talent Committee is responsible for reviewing and making recommendations with respect to the compensation of our non-employee directors. The committee's practice is to engage a compensation consultant every year to conduct a full review and benchmarking (using the same peer group used to benchmark executive compensation) of our non-employee directors' compensation in order to ensure that our directors' compensation is in line with peer companies competing for director talent. Our current non-employee director compensation program was reviewed and approved in 2021 in connection with input from Mercer (US) Inc., an independent compensation advisor. In fiscal 2021, in connection with Ms. Bergeron's appointment as Chair of the Board and with input from Mercer, our Compensation and Talent Committee recommended, and our board of directors approved, an annual cash retainer of $50,000 for non-employee director service as Chair of the Board. No other changes have been made to our non-employee director compensation program since 2017. During 2021, our non-employee director compensation program consisted of equity and cash, as described below.

Equity Compensation

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

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

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

Cash Compensation

Our non-employee director compensation program provides that each year, each non-employee director will receive a cash retainer of $30,000 for serving on our board of directors (the "Annual Retainer"). In addition to the Annual Retainer, the non-employee Chair of the Board is entitled to an additional cash retainer of $50,000, and the lead independent director (if any) is entitled to an additional cash retainer of $19,000.

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

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

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

Hedging and Pledging Policy

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

Stock Ownership Guidelines

In February 2019, we adopted stock ownership guidelines that set minimum stock ownership requirements for our non-employee directors and executive officers, in order to more closely align their interests with the long-term interests of our stockholders. Under the guidelines, each non-employee director is required to own a number of shares of our common stock with a value equal to at least five times the value of his or her Annual Retainer (not including any additional fees received for committee service, board chair or lead independent director service, or meeting attendance). For 2021, shares of the Company's common stock (including shares beneficially owned) and vested and exercisable "in-the-money" stock options count towards satisfaction of the stock ownership levels. In April 2022, our board of directors approved a change to the guidelines such that only shares of the Company's common stock (including shares beneficially owned) will count towards satisfaction of the stock ownership levels. Consistent with emerging best practices, vested and exercisable stock options will no longer be counted towards satisfying the guidelines.

Each non-employee director must satisfy his or her applicable ownership level by the later of (i) February 8, 2024 or (ii) five years after becoming a director. Compliance with these guidelines is measured based on the non-employee director's Annual Retainer and the closing price of the Company's common stock, in each case as of December 31 of each year (or the next trading day if December 31 is not a trading day). Unless and until a director has satisfied his or her applicable level of ownership, he or she is required to retain an amount equal to 50% of the shares received as the result of the exercise, vesting or payment of any equity awards after any shares are sold or withheld, as the case may be, to (i) pay any applicable exercise price for an equity award or (ii) satisfy withholding tax obligations arising in connection with the exercise, vesting or payment of an equity award. As of December 31, 2021, all of our non-employee directors were in compliance with our stock ownership guidelines or within the grace period for compliance.

PROPOSAL NO. 1
ELECTION OF DIRECTORS

Number of Directors; Board Structure

Our board of directors is currently composed of eight members. Our board of directors is divided into three staggered classes of directors. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the same class whose term is then expiring. The term of the Class I directors expires at the Annual Meeting, the term of the Class II directors expires at the 2023 annual meeting, and the term of the Class III directors expires at the 2024 annual meeting.

Nominees

Our Nominating and ESG committee has recommended, and our board of directors has approved, Sandra E. Bergeron and Kristi M. Rogers as nominees for election as Class I directors at the Annual Meeting. If elected, each of Ms. Bergeron and Ms. Rogers will serve as Class I directors until the 2025 annual meeting of stockholders and until their successors are duly elected and qualified, subject to their earlier death, resignation, or removal. Each of the nominees currently serves on our board of directors as a Class I director. For information concerning the nominees, please see "*Board of Directors and Corporate Governance*" above.

If you are a stockholder of record and you sign your proxy card or vote by telephone or over the Internet but do not give instructions with respect to the voting of directors, your shares will be voted "FOR" the election of Ms. Bergeron and Ms. Rogers, each of whom has consented to being named as a nominee in this proxy statement and to serve as a director, if elected. If, at the time of the Annual Meeting, any nominee is unable or declines to serve as a director, the discretionary authority provided in the enclosed proxy will be exercised to vote for a substitute candidate designated by our board of directors, unless the board chooses to reduce its own size. Our board of directors has no reason to believe that any of the nominees will be unable or will decline to serve if elected. If you are a street name stockholder and you do not give voting instructions to your broker, bank, or other nominee, your broker, bank, or other nominee will leave your shares unvoted on this matter.

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

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

Our Audit and Risk Committee has appointed Grant Thornton LLP ("Grant Thornton"), independent registered public accountants, to audit our financial statements for our fiscal year ending December 31, 2022. Grant Thornton has audited our financial statements since 2005. At the Annual Meeting, our stockholders are being asked to ratify the appointment of Grant Thornton as our independent registered public accounting firm for our fiscal year ending December 31, 2022.

Our Audit and Risk Committee is submitting the selection of Grant Thornton to our stockholders because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate governance. If the stockholders do not ratify the appointment of Grant Thornton, our board of directors may reconsider the appointment. Notwithstanding its selection and even if our stockholders ratify the selection, our Audit and Risk Committee, in its discretion, may appoint another independent registered public accounting firm at any time during the year if it believes that such a change would be in the best interests of Qualys and its stockholders.

Representatives of Grant Thornton will be present at the Annual Meeting, and they will have an opportunity to make statements and will be available to respond to appropriate questions from stockholders.

Fees Paid to the Independent Registered Public Accounting Firm

The following table presents fees for services rendered to Qualys by Grant Thornton for the fiscal years ended December 31, 2020 and 2021. During such fiscal years, Grant Thornton did not render any services to Qualys other than professional audit services.

	2020	2021
Audit Fees(1)	$1,271,900	$1,419,786

(1) Audit fees consist of fees for professional services provided in connection with the audit of our annual consolidated financial statements and internal control over financial reporting, review of our quarterly consolidated financial statements and audit services provided in connection with other statutory and regulatory filings.

Auditor Independence

In 2021, there were no other professional services provided by Grant Thornton that would have required the Audit and Risk Committee to consider their compatibility with maintaining the independence of Grant Thornton.

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

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

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

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

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

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

PROPOSAL NO. 3
ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

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

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

We believe that the information provided in the "*Executive Compensation*" section of this proxy statement, and in particular the information discussed in the section entitled "*Executive Compensation—Compensation Discussion and Analysis—Philosophy and Objectives*" beginning on page 41 below, demonstrates that our executive compensation program was designed appropriately and is working to ensure management's interests are aligned with our stockholders' interests to support long-term value creation. Accordingly, we ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

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

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

PROPOSAL NO. 4
APPROVAL OF THE QUALYS, INC. 2012 EQUITY INCENTIVE PLAN, AS AMENDED, RESTATED AND EXTENDED

We are asking stockholders to approve an amendment, restatement and extension of our 2012 Equity Incentive Plan (the “2012 Plan”). Our board of directors has adopted the amended and restated 2012 Plan (the “Restated Plan”), subject to the approval of our stockholders at the Annual Meeting.

If the Restated Plan is not approved by our stockholders, then the existing current version of our 2012 Plan (the “Existing Plan”) will remain in effect until it expires in September 2022. In that case, we will be unable to continue providing equity awards as part of our compensation program and may be compelled to significantly increase the cash component of employee compensation in order to achieve our future incentive, recruiting and retention objectives. Consequently, without stockholder approval of our Restated Plan, we believe our operating cash flow and/or our ability to attract and retain the individuals necessary to drive our performance and increase long-term stockholder value will be impaired. We believe, therefore, that stockholder approval of our Restated Plan is important to our continued success.

If stockholders approve the Restated Plan, then the Restated Plan will become effective on the date of the Annual Meeting (the “Restated Plan Effective Date”) and will have the following material differences from the Existing Plan:

- The number of shares available for issuance under the Restated Plan as of the Restated Plan Effective Date will be (i) 3,300,000 shares plus (ii) any shares subject to awards under the Existing Plan that, on or after the Restated Plan Effective Date, expire or otherwise terminate without having been exercised in full, or that are forfeited to or repurchased by us, not to exceed 2,712,691 shares, minus (iii) any shares subject to awards granted under the Existing Plan after March 31, 2022, but before the Restated Plan Effective Date. Any shares otherwise available for grant under the Existing Plan will no longer be available for grant under the Restated Plan as of the Restated Plan Effective Date;
- The annual automatic share increase provision in the Existing Plan (the “Evergreen Provision”) will be eliminated;
- Any shares granted pursuant to stock appreciation rights (i.e., the gross shares granted) will cease to be available for issuance under the Restated Plan;
- Shares used to pay the exercise price of any award or to satisfy the tax withholding obligations related to any award will not become available for future grant or sale under the Restated Plan;
- Annual limits on the compensation to our non-employee directors will be added to the Restated Plan;
- We will not be able to implement an exchange program to (i) exchange outstanding awards for new awards or cash or (ii) reduce the exercise price of an outstanding award;
- No dividends or other distributions will be paid with respect to any unvested shares underlying any unvested portion of an award;
- The administrator of the Restated Plan may not exercise discretion to accelerate the vesting of awards in a “change in control” (as defined in the Restated Plan);
- The administrator may not provide for any tax gross up payment to any participant, or otherwise provide any participant with a right to indemnification or reimbursement, for any excise tax imposed by Section 4999 of the Code or any similar law;

- Awards granted under the Restated Plan will be subject to a clawback policy and any clawback policy that we are required to implement under the listing standards of any national securities exchange or association on which our securities are listed or under applicable law; and
- The Restated Plan will have a new 10-year term (from the date our board of directors approved the Restated Plan).

Currently, the number of shares of our common stock reserved for issuance under the Existing Plan is 3,050,000 shares plus any shares that were added to the Existing Plan through the Evergreen Provision. As of March 31, 2022, 7,972,872 shares of our common stock have been issued under the Existing Plan since it became effective in 2012, and 9,980,540 shares of our common stock remain available for issuance under the Existing Plan.

In determining and recommending the increase to the share reserve under the Restated Plan, our board of directors considered the effect of the elimination of the Evergreen Provision and the following factors.

Available and Outstanding Share Information

As Of Date	Number of Outstanding Appreciation Awards Under All Equity Incentive Plans	Weighted-Average Exercise Price	Weighted-Average Remaining Term	Number of Full Value Awards Outstanding Under All Equity Incentive Plans	Number of Shares Available for Grant Under All Equity Incentive Plans
3/31/2022	1,861,210	$70.46	6.06 years	851,481	9,980,540

Historical Grant Practices. Our board of directors considered the historical numbers of time-based stock options, time-based restricted stock units ("RSUs"), performance-based stock options, and performance-based restricted stock units ("PRSUs") that we have granted in the past three fiscal years. The annual share usage, or burn rate, under our equity compensation program for the last three fiscal years was as follows:

Annual Share Usage	Fiscal 2019	Fiscal 2020	Fiscal 2021	Three-Year Average
Stock Options Granted	372,289	369,950	494,925	412,388
RSUs Granted	525,144	527,311	538,032	530,162
Performance-based Stock Options Granted	123,856	223,744	—	173,800
PRSUs Granted	—	—	34,103	11,368
Total Equity Awards Granted	1,021,289	1,121,005	1,067,060	1,069,785
Basic Weighted Average Shares of Common Stock Outstanding	39,075,196	39,167,454	39,029,805	39,090,818
Annual Share Usage	3%	3%	3%	3%

Our three-year burn rate, which we define as the number of shares subject to equity awards granted in a year divided by the weighted average shares of common stock outstanding for that fiscal year, is 3%, which is within the industry guidelines recommended by Institutional Shareholder Services ("ISS"). Our senior management, our Compensation and Talent Committee, and Mercer, the independent consultants to our Compensation and Talent Committee, reviewed our burn rate as compared to our industry peer companies.

Forecasted Grant Practices. We currently forecast granting equity awards covering approximately 2 to 3 million shares over the next two-year period, which is equal to 5% to 8% of our weighted average common stock outstanding for the quarter ended March 31, 2022. In light of this forecast and the elimination of the Evergreen Provision, we believe, and our board of directors considered, that the number of shares that will be added to the share reserve under Restated Plan will provide a sufficient number of shares to allow us to grant equity awards for the purpose of our expected new hires, focal awards, any special retention needs and employee growth through any opportunistic acquisitions or hiring for the next two years. However, circumstances could alter this projection, such as a change in business conditions, our stock price, competitive pressures for attracting and retaining employees, or our company strategy.

Awards Outstanding Under Existing Grants. We have outstanding, as of March 31, 2022 time-based stock options covering approximately 1,861,210 shares, approximately 817,378 unvested RSUs, and approximately 34,103 unvested PRSUs. Accordingly, the approximately 2,712,691 shares subject to these outstanding equity awards (commonly referred to as the “overhang”) represent approximately 7% of our common stock outstanding as of March 31, 2022.

Modeling Analysis. We considered various proposed stockholder models for identifying the number of shares that should be added to the Restated Plan so as to set appropriate limits on the awards to be granted under the Restated Plan. While the model we selected only represented one analysis subject to a number of assumptions, we and our board of directors considered the model as the most appropriate benchmark for purposes of determining the number of shares that should be added to the Restated Plan, and the 3,300,000 shares we are seeking to add to the Restated Plan is within the number of shares suggested by the model.

Our executive officers and directors have an interest in the approval of the Restated Plan by our stockholders because they would be eligible to receive awards under the Restated Plan. Our board of directors and the Compensation and Talent Committee have approved the Restated Plan, subject to the approval of our stockholders at the Annual Meeting.

Summary of the Restated Plan

Our Restated Plan was approved by our board of directors on April 6, 2022. The following general description of material features of the Restated Plan is qualified in its entirety by reference to the provisions of the Restated Plan set forth in Appendix A of this proxy statement.

Eligibility. Our Restated Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (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. As of March 31, 2022, we had seven non-employee directors and approximately 1,876 employees (including our one employee director) and 16 consultants.

Share Reserve. The total number of shares of our common stock reserved for issuance under our Restated Plan from the Restated Plan Effective Date is (i) 3,300,000 shares, plus (ii) any shares subject to awards under the Existing Plan that, on or after the Restated Plan Effective Date, expire or otherwise terminate without having been exercised in full, or that are forfeited to or repurchased by us, with the maximum number of shares to be added to the Restated Plan as a result of clause (ii) equal to 2,712,691 shares, minus (iii) any shares subject to awards granted under the Existing Plan after March 31, 2022, but before the Restated Plan Effective Date. For clarity, shares used to pay the exercise price of an award granted under the Existing Plan or to satisfy the tax withholding obligations related to an award granted under the Existing Plan will not be added to the Restated Plan. The shares may be authorized, but unissued, or reacquired common stock.

Generally, if an award expires or becomes unexercisable without having been exercised in full or, with respect to restricted stock, restricted stock units, performance units or performance shares, is forfeited to or repurchased by us due to failure to vest, the unpurchased shares (or for awards other than options or stock appreciation rights, the forfeited or repurchased shares) that were subject to such awards will become available for future grant or sale under the Restated Plan (unless it has terminated). With respect to stock appreciation rights, all shares granted (i.e., the gross shares granted) will cease to be available. Shares used to pay the exercise price of an award or to satisfy the tax withholding obligations related to an award will not become available for future grant or sale. To the extent an award is paid out in cash rather than shares, such cash payment will not reduce the number of shares available for issuance.

As of March 31, 2022, options to purchase 1,844,725 shares of our common stock and 851,481 restricted stock units were outstanding under the Existing Plan, and options to purchase 16,485 shares of common stock were outstanding under our 2000 Equity Incentive Plan. As of the same date, the closing price of a share of our common stock as reported on The Nasdaq Stock Market was $142.41.

Administration. Our board of directors or a committee appointed by our board of directors administers our Restated Plan. Currently, our Compensation and Talent Committee administers our Restated Plan. Different committees may administer our Restated Plan with respect to different groups of service providers. To make grants to certain officers and key employees, the members of the committee must qualify as “non-employee directors” under Rule 16b-3 of the Exchange Act.

Subject to the provisions of our Restated Plan, the administrator generally has the power to make all determinations deemed necessary or advisable for administering the Restated Plan. The administrator has the power to select the eligible employees, consultants, and directors to whom awards may be granted and to determine the terms of awards, including the exercise price (if any), the number of shares subject to each such award, the time when awards may vest or be exercised (including the ability to accelerate the vesting and exercisability of awards, except for any discretionary acceleration in a change in control), and the form of consideration payable upon exercise, if applicable. The administrator also has the power to determine the fair market value of our common stock; approve forms of award agreements for use under the Restated Plan; to construe and interpret the terms of the Restated Plan and awards granted under the Restated Plan; prescribe, amend, and rescind rules and regulations relating to the Restated Plan; and modify or amend each award, subject to the provisions of our Restated Plan. The administrator may not institute an exchange program under which (i) outstanding awards are surrendered or cancelled in exchange for 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 have the opportunity to transfer any outstanding awards to a financial institution or other person or entity selected by the administrator, (iii) and/or the exercise price of an outstanding award is increased or reduced. The administrator’s decisions, determinations, and interpretations are final and binding on all participants and any other holders of awards.

Stock Options. Options may be granted under our Restated Plan. Subject to the provisions of our Restated Plan, the administrator determines the terms and conditions of options, including when such options vest and become exercisable (and the administrator has the discretion to accelerate the time at which such options will vest or become exercisable, except for any discretionary acceleration in a change in control). The per share exercise price of any option generally must be at least 100% of the fair market value of a share of our common stock on the date of grant, and the term of an incentive stock option may not be more than 10 years. However, with respect to any incentive stock option granted to an individual who owns 10% of the voting power of all classes of stock of our company or any of its parent or subsidiary corporations, the term of such option must not exceed 5 years, and the per share exercise price of such incentive stock option must be at least 110% of the fair market value of a share of our common stock on the grant date. After a participant’s service terminates, he or she generally may exercise the vested portion of his or her option for the period of time stated in his or her option agreement. Generally, our option agreements provide that (i) if termination is due to death or disability, the option will remain exercisable for 12 months, and (ii) in all other cases, the option will remain exercisable for 3 months following the termination of service. However, in no event may an option be exercised later than the expiration of its term.

Stock Appreciation Rights. Stock appreciation rights may be granted under our Restated Plan. 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. Subject to the provisions of our Restated Plan, the administrator determines the terms and conditions of stock appreciation rights, including when such rights vest and become exercisable (and the administrator has the discretion to accelerate the time at which such rights will vest or become exercisable, except for any discretionary acceleration in a change in control) and whether to pay any increased appreciation in cash, shares of our common stock, or a combination of both. The per share exercise price of a stock appreciation right must be at least 100% of the fair market value per share on the date of grant. After a participant's service terminates, he or she generally may exercise the vested portion of his or her stock appreciation right for the period of time stated in his or her option agreement. However, in no event may a stock appreciation right be exercised later than the expiration of its term.

Restricted Stock. Restricted stock may be granted under our Restated Plan. 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. 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), and the administrator has the discretion to accelerate the time at which any restrictions will lapse or be removed, except for any discretionary acceleration in a change in control. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units. Restricted stock units may be granted under our Restated Plan. Restricted stock units are bookkeeping entries representing an amount equal to the fair market value of one share of our common stock. 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. The administrator has the discretion to accelerate the time at which any restrictions will lapse or be removed, except for any discretionary acceleration in a change in control.

Performance Units and Shares. Performance units and performance shares may be granted under our Restated Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance objectives established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance objectives 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. The administrator has the discretion to reduce or waive any performance objectives or other vesting provisions for performance units or performance shares, except for any discretionary reduction or waiver in a change in control. Performance units will have an initial dollar value established by the administrator on or before to the grant date. Performance shares will have an initial value equal to the fair market value of our common stock on the grant date. The administrator has the discretion to pay earned performance units or performance shares in the form of cash, shares, or in some combination of both.

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

Outside Directors. Our Restated Plan provides that any outside (non-employee) director, in any fiscal year, may not be granted cash compensation and/or equity awards under our Restated Plan with an aggregate value (determined in accordance with generally accepted accounting principles ("GAAP")) of more than $1,000,000, except that this limit will be increased to $2,000,000 in our fiscal year of an individual's initial service as an outside director. Any equity awards granted under our Restated Plan to an outside director for his or her services as an employee, or for his or her services as an employee or as a consultant (other than as a non-employee director), will not count for purposes of the limitation. This limit does not reflect the intended size of any potential compensation or equity awards to our outside (non-employee) directors.

Other Limitations. No dividends or other distributions may be paid with respect to any unvested shares underlying any unvested portion of an award. In addition, the administrator may not provide for any tax gross up payment to any participant, or otherwise provide any participant with a right to indemnification or reimbursement, for any excise tax imposed by Section 4999 of the Code or any similar law.

Certain Adjustments. If there are certain changes in our capitalization, the administrator will adjust the number and class of shares that may be delivered under the Restated Plan; the number, class, and price of shares covered by each outstanding award; and the numerical share limits contained in the Restated Plan.

Dissolution or Liquidation. If there is a proposed liquidation or dissolution of our company, the administrator will notify participants as soon as practicable before the effective date of such event and all awards, to the extent that they have not been previously exercised, will terminate immediately before the consummation of such event.

Merger or Change in Control. Our Restated Plan provides that if there is a merger of the company with or into another company or entity or a change in control of our company, each outstanding award will be treated as the administrator determines, except that the administrator may not exercise discretion to accelerate the vesting or lapse of restrictions applicable to an award in a change in control. The administrator is not required to treat all awards similarly. If the successor corporation 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, except that any already achieved cumulative performance over 100% in prior performance periods will vest at the actual achieved percentage, and the administrator will notify the participant that such award will become fully exercisable, if applicable, for a specified period before the transaction. The award will then terminate upon the expiration of the specified period of time.

With respect to awards held by a non-employee director that are assumed or substituted for, if such non-employee director's service as a director of ours or a successor corporation is terminated on or after the date of such merger or change in control (except for a voluntary resignation that is not at the request of the acquirer), then the non-employee director will fully vest in and have the right to exercise his or her options and/or stock appreciation rights, all restrictions on his or her restricted stock and restricted stock units will lapse, and, with respect to awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions met in the event.

Forfeiture Events. Awards granted under the Restated Plan will be subject to recoupment under our current clawback policy and any clawback policy that we are required to adopt under the listing standards of any national securities exchange or association on which our securities are listed or under applicable laws. In addition, the administrator may impose such other clawback, recovery or recoupment provisions in an award agreement as the administrator determines necessary or appropriate. The administrator may specify in an award agreement that the participant's rights, payments and benefits with respect to an award will be subject to reduction, cancellation, forfeiture, recoupment, reimbursement, or reacquisition upon the occurrence of certain specified events in addition to any otherwise applicable vesting or performance conditions.

Plan Amendments and Termination. Our Restated Plan will automatically terminate in 2032, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend, or terminate the Restated Plan, but such action will not impair the rights of any participant without his or her written consent.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the material U.S. federal income tax consequences of participation in the Restated Plan. The summary is based on existing U.S. laws and regulations, and there can be no assurance that those laws and regulations will not change in the future. The summary does not purport to be complete and does not discuss the tax consequences upon a participant's death, or the provisions of the income tax laws of any municipality, state or non-U.S. country in which the participant may reside. As a result, tax consequences for any particular participant may vary based on individual circumstances.

Incentive Stock Options. An optionee recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Optionees who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option normally will recognize a capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionee satisfies such holding periods upon a sale of the shares, the Company will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares within two years after the date of grant or within one year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the exercise date and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the optionee upon the disqualifying disposition of the shares generally should be deductible by the Company for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the exercise date is treated as an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

Nonstatutory Stock Options. Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special U.S. tax status. An optionee generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income equal to the amount that the fair market value of the shares on such date exceeds the exercise price. If the optionee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. No tax deduction is available to the Company with respect to the grant of a nonstatutory stock option or the sale of the stock acquired through such grant.

Stock Appreciation Rights. In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant generally will recognize ordinary income in an amount equal to the fair market value of any shares of our common stock received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Restricted Stock Awards. A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the vesting date. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The participant may elect, under Section 83(b) of the Code, to accelerate the ordinary income tax event to the date of acquisition by filing an election with the Internal Revenue Service no later than 30 days after the date the shares are acquired. Upon the sale of shares acquired through a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Restricted Stock Units. There generally are no immediate tax consequences of receiving an award of restricted stock units. A participant who is awarded restricted stock units generally will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such participant at the end of the applicable vesting period or, if later, the settlement date elected by the administrator or a participant. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Any additional gain or loss recognized upon any later disposition of any shares received would be capital gain or loss.

Performance Units and Performance Shares. A participant generally will recognize no income upon the grant of a performance share or a performance unit award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or nonrestricted shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the date the ordinary income tax event occurs, will be taxed as capital gain or loss.

Section 409A. Section 409A of the Code provides certain requirements for non-qualified deferred compensation arrangements with respect to an individual's deferral and distribution elections and permissible distribution events. Awards granted under the Restated Plan with a deferral feature will be subject to the requirements of Section 409A of the Code. If an award is subject to and fails to satisfy the requirements of Section 409A of the Code, the recipient of that award may recognize ordinary income on the amounts deferred under the award, to the extent vested, which may be before the compensation is actually or constructively received. Also, if an award that is subject to Section 409A fails to comply with Section 409A's provisions, Section 409A imposes an additional 20% federal income tax on compensation recognized as ordinary income, as well as interest on such deferred compensation. Certain states have enacted laws similar to Section 409A which impose additional taxes, interest and penalties on non-qualified deferred compensation arrangements. The Company will also have withholding and reporting requirements with respect to such amounts.

Medicare Surtax. A participant's annual "net investment income," as defined in Section 1411 of the Internal Revenue Code, may be subject to a 3.8% federal surtax (generally referred to as the "Medicare Surtax"). Net investment income may include capital gain and/or loss arising from the disposition of shares subject to a participant's awards under the Restated Plan. Whether a participant's net investment income will be subject to the Medicare Surtax will depend on the participant's level of annual income and other factors.

Tax Effect for the Company. The Company generally will be entitled to a tax deduction in connection with an award under the Restated Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to our chief executive officer and other "covered employees" as determined under Section 162(m) and applicable guidance. Under Section 162(m), the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000.

New Plan Benefits

The number of awards that an employee, director, or consultant may receive under the Restated Plan is in the discretion of the administrator and therefore cannot be determined in advance. For (i) each of our named executive officers, (ii) our executive officers, as a group, (iii) our directors who are not executive officers, as a group, and (iv) all of our employees who are not executive officers, as a group, the following table sets forth the following information: (A) the aggregate number of shares subject to stock options (including performance-based stock options at target levels) granted under the Existing Plan during fiscal year 2021, (B) the average per share exercise price of such options, (C) the aggregate number of restricted stock units (including RSUs and PRSUs at target levels) granted under the Existing Plan during fiscal year 2021, and (D) the dollar value of such RSUs and PRSUs.

	Number of Shares Subject to Options	Average Per Share Exercise Price of Options	Number of RSUs and PRSUs (1)	Dollar Value of RSUs and PRSUs (2)
Sumedh S. Thakar *Director, President and Chief Executive Officer*	—	—	71,726	$ 8,364,620
Philippe F. Courtot *Former Chief Executive Officer*	—	—	—	$ —
Joo Mi Kim *Chief Financial Officer*	—	—	37,829	$ 4,541,750
Allan Peters *Chief Revenue Officer*	—	—	32,853	$ 3,483,318
Bruce K. Posey *Chief Legal Officer*	—	—	23,748	$ 2,851,185
All executive officers, as a group	—	—	166,156	$19,240,873
All directors who are not executive officers, as a group	—	—	15,317	$ 1,652,349
All employees who are not executive officers, as a group	494,925	$112.43	390,662	$44,741,613

(1) Reflects the number of RSUs and PRSUs at the target levels of performance, and in the case of the PRSU awards granted to our named executive officers in October 2021, including only the first tranche of such PRSU awards (since the performance metrics for the second and third tranches of the PRSU awards have not been established and as a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches). Including the second and third tranches of these PRSU awards, these numbers would be (i) 97,918 for Mr. Thakar, (ii) 47,286 for Ms. Kim, (iii) 40,129 for Mr. Peters, (iv) 29,685 for Mr. Posey, and (v) 215,018 for all executive officers, as a group.

(2) Reflects the aggregate grant date fair value of the equity awards computed in accordance with FASB ASC Topic 718. Each named executive officer's PRSUs granted in October 2021 are divided into three tranches with one-year performance periods covering calendar year 2022, 2023, and 2024, respectively. One-third of the target number of PRSUs is allocated to each tranche. Each tranche will become eligible to vest based on the annual performance metrices to be determined each performance period. The aggregate grant date fair value of such PRSU awards does not include the value associated with the second and third tranches as such awards are not considered granted under FASB ASC Topic 718 until the performance metrices are determined.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" APPROVAL OF THE QUALYS, INC. 2012 EQUITY INCENTIVE PLAN, AS AMENDED, RESTATED AND EXTENDED.

REPORT OF THE AUDIT AND RISK COMMITTEE

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

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

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

Based on its review and discussions with management and Grant Thornton, our Audit and Risk Committee recommended to our board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, for filing with the SEC.

Respectfully submitted by the members of the Audit and Risk Committee of the board of directors:

Jeffrey P. Hank (Chair)
Wendy M. Pfeiffer
John Zangardi

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Our commitment to solid governance, environmental stewardship and social responsibility is essential to our business strategy and long-term value creation for our stakeholders. We believe that doing the right thing for our people, our communities and our environment engenders the trust of our customers, partners, employees and stockholders, enabling us to grow our business profitably and meet the diverse needs of our constituents.

Governance of ESG

Our board of directors believes that oversight of ESG issues is a key responsibility of the entire board. Each of our board committees works closely with management to oversee ESG across our business operations in the areas aligned with their respective responsibilities. In accordance with its charter, our Nominating and ESG Committee oversees our ESG activities, programs and public disclosures. Our Audit and Risk Committee has oversight responsibility of policies on risk assessment and risk management, including security, data privacy, reliability, business continuity and capacity matters. Our Compensation and Talent Committee oversees a range of human capital management practices, including matters relating to talent acquisition, compensation, benefits, training and development, as well as employee diversity and inclusion.

Environmental Sustainability

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

Our Eco-Friendly Operations. Our environmental, health and safety systems, processes and tools in place across our footprint enable Qualys to meet or exceed governmental and industry requirements. We strive to operate our platforms in energy-efficient networks and data centers as well as pursue sustainability initiatives that reduce energy, waste and materials consumption.

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

Social Responsibility

Talent Development, Health and Safety. We take a holistic approach to our social strategy, striving to create a culture where talented people want to come to work, develop their careers, become leaders, and make a difference for all our stakeholders and communities. We believe every employee makes a difference, so we empower them in their roles and support them for maximum professional growth. We assist employees in achieving their career goals by helping them improve their skillsets and transition to other challenging roles.

For more information on our Human Capital Resources, please see our 2021 annual report on Form 10-K.

Diversity and Inclusion. We are proud to be a leader in the promotion and practice of diversity and inclusion. In addition to having offices and employees all over the world, we take pride in our cultural diversity. Our objective is to continue to improve our hiring, development, advancement, and retention of diverse talent and to foster an inclusive environment. Our board of directors is comprised of 50% gender and ethnically diverse directors, and more than 50% of the executive team are from underrepresented communities.

Socially Responsible Sourcing. We are committed to ensuring that no modern slavery or human trafficking is associated with our supply chains or with any part of our business. As part of our efforts, we participate in the following activities: (1) review procurement documentation to ensure it includes a requirement, as necessary, for our suppliers to confirm that they are not involved in modern slavery or human trafficking; (2) work to ensure that new suppliers declare that they are not involved in modern slavery or human trafficking; and (3) review our policies and training efforts to account for the requirements of the Modern Slavery Act of 2015.

Data Security and Customer Privacy. We also strongly believe in encouraging organizations to continually work toward improving their security posture through the vulnerability detection, remediation and response capabilities of the Qualys Cloud Platform. Our cloud platform helps organizations protect their systems and applications from ever-evolving cyber-attacks and helps achieve compliance with internal policies and external regulations. For more information on our Qualys Cloud Platform, please see our 2021 annual report on Form 10-K.

Corporate Governance and Business Ethics

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

- Our board of directors acts in the best interest of our company and our stockholders, and meets or exceeds evolving regulatory, stockholder, business and other requirements. Our board operates under Corporate Governance Guidelines, which together with board committee charters and our certificate of incorporation and bylaws, constitute the primary structure for governance of our company;
- Our Code of Business Conduct and Ethics applies to all directors, officers, employees of Qualys and its subsidiaries. Agents and contractors of Qualys are also expected to read, understand and abide by this code.

No Incorporation by Reference

This proxy statement includes several website addresses or references to additional company reports or resources found on our corporate website. These website addresses are intended to provide inactive, textual references only. The information on these websites, including the information contained in those reports or resources, is not part of this proxy statement and is not incorporated by reference in this proxy statement.

EXECUTIVE OFFICERS

The following table identifies certain information about our executive officers as of April 21, 2022. Officers are elected by our board of directors to hold office until their successors are elected and qualified.

Name	Age	Position
Sumedh S. Thakar	46	Director, President and Chief Executive Officer
Joo Mi Kim	41	Chief Financial Officer
Allan Peters	57	Chief Revenue Officer
Bruce K. Posey	70	Chief Legal Officer and Corporate Secretary

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

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

Allan Peters has served as our Chief Revenue Officer since May 2021. From August 2018 to May 2021, Mr. Peters served as Chief Revenue Officer at Trustwave, a leader in cybersecurity threat detection and response, and from April 2016 to June 2018, he served as Chief Revenue Officer at Conga, a revenue lifecycle management solution provider. Previously, Mr. Peters held executive sales leadership positions in public and private growth companies BigFix, SecurityFocus, CA, IBM and Symantec. Mr. Peters holds a Bachelor of Science degree in Business from the University of Kansas.

Bruce K. Posey has served as our Chief Legal Officer since October 2021 and our Corporate Secretary since June 2012. Mr. Posey was previously our Vice President and General Counsel from May 2012 to October 2021. From December 2011 to May 2012, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary of IntelePeer, Inc. From January 2009 to December 2011, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary at Openwave Systems, Inc. From July 2002 to January 2009, Mr. Posey served as Senior Vice President, General Counsel and Corporate Secretary at iPass. Mr. Posey holds a Bachelor of Science degree from the University of Oregon and a Juris Doctor degree from the University of Michigan Law School.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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

Name	Position
Sumedh S. Thakar (1)	Director, President and Chief Executive Officer ("CEO")
Philippe F. Courtot (2)	Former Chief Executive Officer
Joo Mi Kim	Chief Financial Officer
Allan Peters (3)	Chief Revenue Officer ("CRO")
Bruce K. Posey (4)	Chief Legal Officer

(1) Mr. Thakar was appointed to our board of directors and as our interim CEO, effective February 7, 2021, in conjunction with Mr. Courtot taking a leave of absence. Mr. Thakar was appointed as our CEO, effective April 27, 2021.
(2) Mr. Courtot took a leave of absence beginning in February 2021 due to health issues and resigned as our CEO in March 2021 due to such health issues.
(3) Mr. Peters commenced employment with us on May 10, 2021, and was determined by our board of directors to be an executive officer of Qualys on October 28, 2021.
(4) Mr. Posey was appointed as our Chief Legal Officer, effective October 28, 2021.

Proxy Statement

Overview

Business Highlights

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

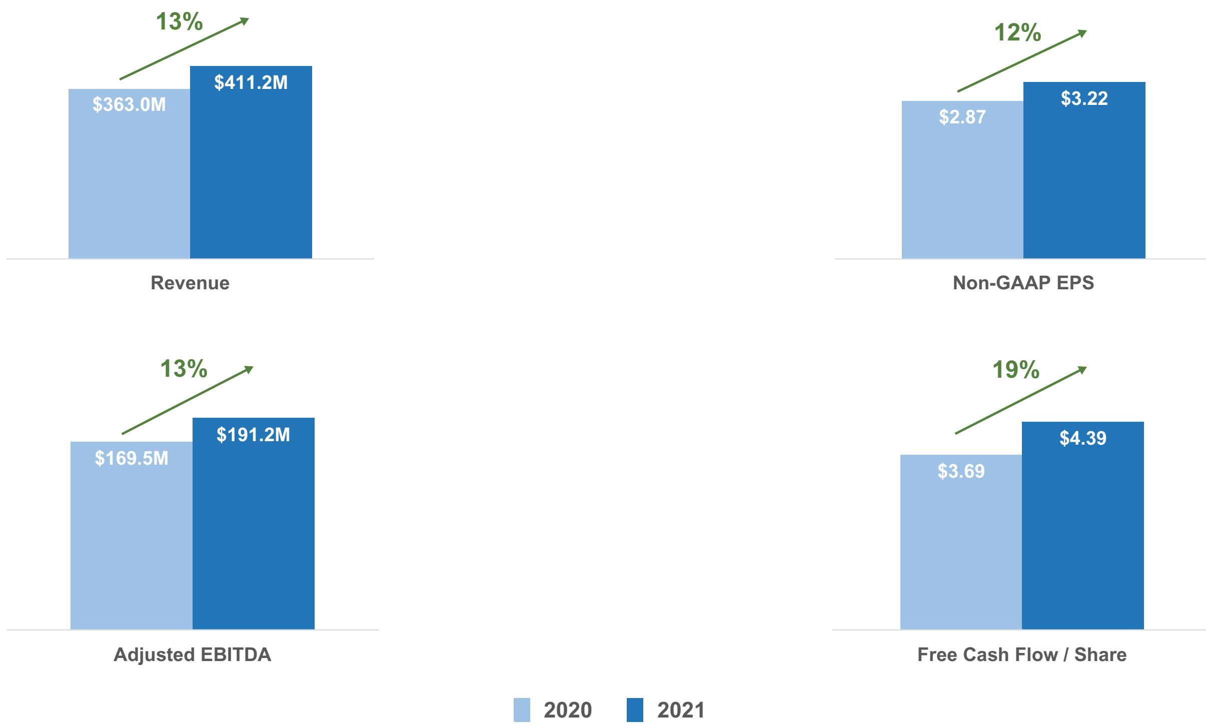
IT infrastructures are more complex and globally-distributed today than ever before, as organizations of all sizes increasingly rely upon a myriad of interconnected information systems and related IT assets, such as servers, databases, web applications, routers, switches, desktops, laptops, other physical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

We intend to leverage our innovation, extensive expertise and position as a trusted provider of cloud-based IT, security and compliance solutions to continue to grow our revenues and maintain strong profitability. In 2021, we continued our business momentum and improved our financial performance, as set forth in the bullets and graphics below:

- Revenues increased by 13% to $411.2 million, as compared to $363.0 million in 2020;
- Adjusted EBITDA* (a non-GAAP financial measure) increased by 13% to $191.2 million, which represents 46% of our 2021 revenues, as compared to $169.5 million in 2020, which represents 47% of our 2020 revenues;

- Non-GAAP EPS* increased by 12% to $3.22, as compared to $2.87 in 2020;
- Free cash flow per share* (a non-GAAP financial measure) increased by 19% to $4.39, as compared to $3.69 in 2020. In 2021, we continued to invest the cash we generated from operations back into Qualys, repurchasing $130 million of our stock, or approximately 1.1 million shares

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



Consistent with our pay-for-performance philosophy, our non-equity incentive plan pays cash compensation based on achievement of bookings, revenue growth and non-GAAP EPS. The Compensation and Talent Committee selected these three metrics, which measure sales growth and profitability, as the corporate performance metrics that best support our annual operating plan and enhance long-term value creation. In 2021, we met or exceeded all of the performance targets, having crossed the growth inflection point with focused execution, and the non-equity incentive plan paid out at 100% of target. We ended the year strong with Q4 2021 revenue growth of 16% from a year ago, up from 12% year-over-year growth in Q4 2020.

Good Pay and Governance Practices

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

What we do ✓

- ✓ *We balance near- and long-term strategic objectives by providing a mix of cash and equity incentives*
- ✓ *We cap non-equity incentive awards at 100% of target for all of our named executive officers, except our CRO whose commissions are capped at 200% of target*

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

What we are not doing X

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

Philosophy and Objectives

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

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

Overview of Stockholder Engagement Process

Engagement Prior to Annual Meeting

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

Annual Meeting

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

Post Annual Meeting

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

Off-Season Engagement and Evaluation of Best Practices

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

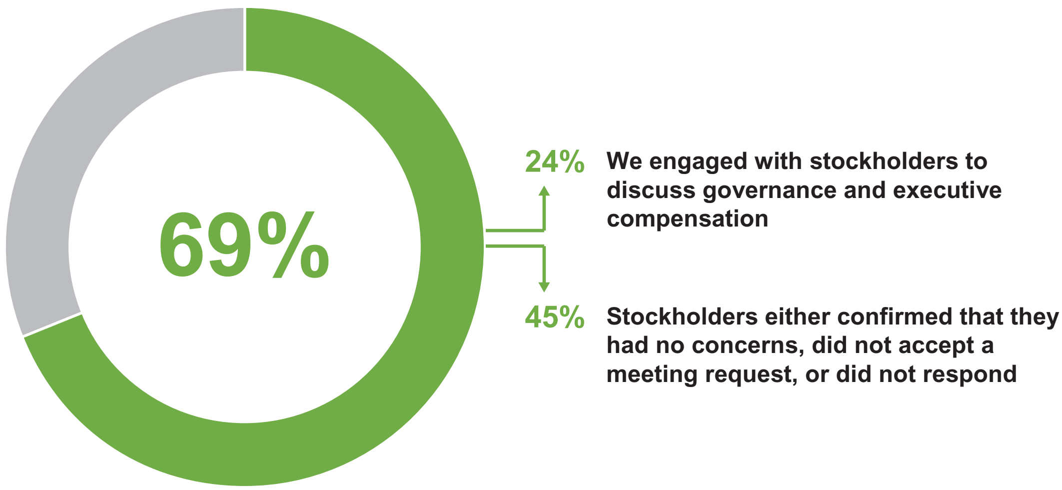
Stockholder Engagement and Advisory Vote on Executive Compensation

Our Compensation and Talent Committee considers the results of the annual stockholder advisory vote on the compensation of our named executive officers ("Say on Pay") and stockholder feedback on our executive compensation program as part of its annual executive compensation review. In 2021, our "Say on Pay" proposal received 38% support, which was significantly below our expectations. As a result of this vote outcome and our continuing commitment to be responsive to our stockholders, the Compensation and Talent Committee and management embarked on an extensive stockholder outreach initiative and a comprehensive review of our executive compensation program.

In addition to our ongoing dialogue with our stockholders on our strategy and value proposition, in 2021 we reached out to our top 50 stockholders (excluding the Philippe Courtot Family Trust) to discuss our executive compensation program, any concerns or questions they had on our 2020 executive compensation program, and other governance initiatives. These top 50 stockholders held approximately 69% of our outstanding stock as of December 31, 2021. Eight stockholders, representing approximately 24% of our outstanding stock as of December 31, 2021, accepted our invitation for engagement. These meetings were led by our Chair of the Board, Chair of the Compensation and Talent Committee and management team.

Our outreach included our top 50 stockholders (excluding the Philippe Courtot Family Trust) who held 69% of our outstanding stock as of December 31, 2021

% Qualys Stock Ownership



Below is a summary of feedback we received from our stockholders during our 2021 outreach and the Board's response.

What we heard from stockholders	What we did
Financial targets for performance-based equity awards and the short-term incentive plan should not have been adjusted down for the CEO in 2020.	In 2020, our Compensation and Talent Committee approved adjustments to financial targets for all employees and executives in light of the potential effects of the COVID-19 pandemic. We understand the stockholder sentiment and, following our discussions with our stockholders, our Compensation and Talent Committee does not intend to make any adjustments to named executive officers' financial targets in the future unless deemed absolutely necessary, and then only with a consequent reduction in the associated pay opportunity.
CEO and Chairman roles should be separate.	We have separated the roles. Ms. Bergeron was appointed to serve as the Chair of the Board starting in June 2021. Mr. Thakar was appointed to serve as CEO in April 2021.
Equity awards for the new CEO should be performance-based.	50% of the intended target value of the awards granted to Mr. Thakar upon his appointment as our CEO were PRSUs. We intend to continue to utilize performance-based equity awards as part of the CEO's compensation package.

What we heard from stockholders	What we did
Performance-based equity awards should be introduced for other executives.	For the first time, we introduced PRSUs for our non-CEO named executive officers, with approximately 30% of the intended target value of the awards granted to Ms. Kim and Messrs. Peters and Posey in 2021 allocated to PRSUs. We intend to continue to utilize performance-based equity awards as part of our non-CEO named executive officers' compensation package.
Long-term financial targets should continue to be used for performance-based equity grants.	The PRSU awards granted to our named executive officers in October 2021 will vest annually over a three-year performance period based on the annual revenue growth rate and Adjusted EBITDA margin achievement for the applicable year, except that vesting and release of the PRSU awards is capped at 100% of target performance in each of the first two years of the performance period, with cumulative achievement over 100% to be vested and released at the end of the third year of the performance period, subject to continued service by the executive through the date that performance is certified. Our Compensation and Talent Committee determined that this was the most appropriate approach to align the interests of our stockholders and company objectives and drive increased stockholder value given the challenges of setting three-year financial growth targets at this time due to volatility in business and market conditions, including the possibility of a tax reform that could have had a meaningful impact on our free cash flow. Because we do not anticipate making any modifications to financial targets mid-cycle per stockholder feedback, our Compensation and Talent Committee believed that this was the most appropriate design for our named executive officers' 2021 PRSU awards.
Excess cash on the balance sheet should be used to repurchase additional shares.	In October 2021, we announced a $200 million increase to our share repurchase program. In 2021, we repurchased $130 million of our shares, and we will continue to evaluate our share repurchase program and make changes to support increased stockholder value. The 2021 increase in our share repurchase program was considered when calculating non-GAAP earnings per diluted share for the purpose of determining our named executive officers' actual awards under our 2021 Cash Bonus Plan to ensure that the higher repurchase amount alone did not increase the amount of such awards.

Compensation-Setting Process

Role of the Compensation and Talent Committee

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

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

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

Our Compensation and Talent Committee has authority to engage independent outside consultants and obtain input from our management team, other employees, and external advisers. In 2021, our Compensation and Talent Committee engaged Mercer (US) Inc. ("Mercer"), a third-party compensation consultant, to assist us with respect to the compensation of our executive team, including our named executive officers.

Role of Compensation Consultant

In 2021, Mercer provided data on the compensation provided to executives in our compensation peer group and the market in general. The compensation peer group is selected on the basis of relevant industry, size, location and comparability of the business. This data was considered by our Compensation and Talent Committee in setting executive compensation in 2021. This process involved Mercer analyzing, reviewing and making recommendations to our Compensation and Talent Committee regarding (i) the compensation peer group and (ii) various elements of our executive compensation program based on a comparison of the base salary, target total cash compensation (i.e., base salary plus non-equity incentive plan compensation), annual long-term incentive values, and target total direct compensation (i.e., target total cash compensation plus equity awards) we provide to our named executive officers against that provided by our compensation peer group to similarly situated executives. Mercer also provided support in refining our compensation program to respond to the feedback we received from our stockholders in 2021. In 2021, Mercer did not provide any services to us or receive any payments from us, except in its capacity as a consultant to our Compensation and Talent Committee. Based on the consideration of the various factors as set forth in the rules of the SEC and the Nasdaq Stock Market, our Compensation and Talent Committee believes that its relationship with Mercer and the work of Mercer on behalf of the committee has not raised any conflicts of interest.

Role of Management

During 2021, Ms. Kim, Mr. Posey, and Rima Touma Bruno, our Chief Human Resources Officer, typically attended our Compensation and Talent Committee's meetings. Our Compensation and Talent

Committee may invite to its meetings any other person that it deems appropriate. No named executive officer attends the portions of a meeting during which decisions regarding his or her compensation are made.

Peer Companies

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

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

In April 2021, with the assistance of Mercer, our Compensation and Talent Committee reviewed our compensation peer group based on our peer group selection criteria. Peer group philosophy and selection criteria was established in 2019 and the same approach was followed in 2020 and 2021. Over 80 companies were analyzed and considered for inclusion based on a mix of qualitative (e.g., competitors in the cybersecurity industry or SaaS peers) and quantitative criteria (e.g., market cap, revenue), as well as an objective, scorecard-based approach. Our Compensation and Talent Committee decided that no changes would be made to our compensation peer group, except for the removal of LogMeIn, Inc. (since it was no longer a public company). The following is a list of the public companies that our Compensation and Talent Committee used to set cash and equity compensation beginning in 2021:

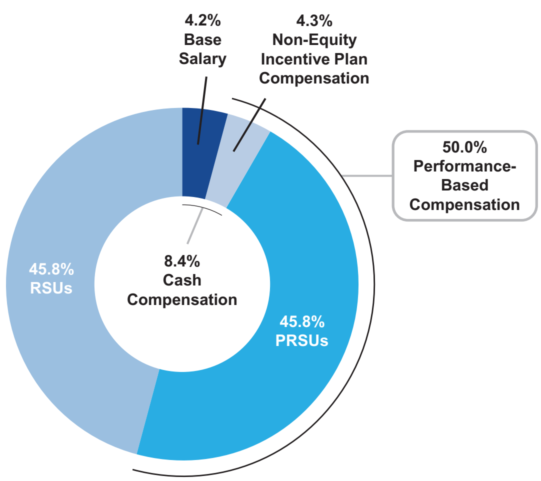
Compensation Peer Group		
AppFolio, Inc.	New Relic	Splunk Inc.
CrowdStrike Holdings, Inc.	Palo Alto Networks, Inc.	SPS Commerce, Inc.
FireEye Inc.	Proofpoint, Inc.	Tenable Holdings, Inc.
Five9, Inc.	Q2 Holdings, Inc.	Varonis Systems, Inc.
HubSpot, Inc.	Rapid7, Inc.	Zendesk, Inc.

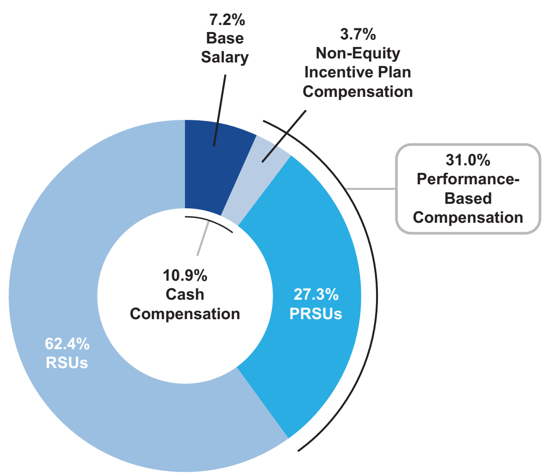
Use of Peer Data

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

Pay Mix

As shown in the charts below, a significant portion of the target total direct compensation for the named executive officers is performance-based compensation (50% for the CEO, Mr. Thakar, and 31% for Ms. Kim and Mr. Posey, who were the only other named executive officers employed by us for all of 2021). For the chart showing the target total direct compensation of Ms. Kim and Mr. Posey, each figure was separately calculated for each named executive officer, and the percentages shown in the chart represent the average of the figures for the two named executive officers.





Executive Compensation Program Components

The following sections describe each component of our executive compensation program, provide the rationale for each component, and explain how the compensation amounts and awards were determined for 2021.

Base Salary

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

Our Compensation and Talent Committee reviewed our executive compensation program, including base salary for our named executive officers. The committee evaluated the peer group compensation data provided by Mercer and determined, based on its judgment, that we were providing target compensation below current market compensation. In connection with Mr. Thakar's promotion to CEO, the Compensation and Talent Committee recommended, and our board of directors approved, an increase to his base salary, effective as of April 27, 2021. In addition, the Compensation and Talent Committee recommended, and our board of directors approved, increases to the base salaries of Ms. Kim and Mr. Posey, effective as of November 1, 2021. These increases were made based on our review of market data from our compensation peer group. In addition to the market data, the Compensation and Talent Committee also considered each executive's performance and contributions in deciding to improve the competitiveness of their base salaries with the base salaries of comparable executives in the market. Each named executive officer's base salary during 2021 is listed in the table below.

Named Executive Officer	Base Salary at Start of 2021	Base Salary at End of 2021*
Sumedh S. Thakar	$400,000	$550,000
Philippe F. Courtot	450,000	—
Joo Mi Kim	340,000	410,000
Allan Peters	325,000**	325,000
Bruce K. Posey	330,000	360,000

* The base salary increase for Mr. Thakar was effective April 27, 2021. The base salary increases for Ms. Kim and Mr. Posey were effective November 1, 2021.

** Represents Mr. Peters' base salary at the commencement of his employment with us on May 10, 2021.

The total base salaries paid to our named executive officers during 2021 are set forth in the section entitled "*2021 Summary Compensation Table*" below.

Non-Equity Incentive Plan Compensation

2021 Corporate Bonus Plan

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

Except for Mr. Peters (who participated in our Sales Incentive Compensation Plan described below, in light of his position as our Chief Revenue Officer), our named executive officers participated in our 2021 Corporate Bonus Plan, which provided them with an opportunity to receive formula-based incentive amounts on a quarterly basis. Our Compensation and Talent Committee decided this was the most appropriate measure of time to determine achievement of short-term goals because it aligns with the time periods for which we give external guidance. These named executive officers' target bonus opportunities under the 2021 Corporate Bonus Plan are expressed as a percentage of each named executive officer's base salary as of the last day of the applicable quarter. In connection with Mr. Thakar's promotion to CEO, the Compensation and Talent Committee recommended, and our board of directors approved, an increase to his percentage (from 50% to 100%), effective as of January 1, 2021. For the other named executive officers, their percentages remained unchanged from 2020.

The target bonus opportunity of each named executive officer that participated in the 2021 Corporate Bonus Plan is listed in the table below and represents the maximum amount that the named executive officer can receive under the 2021 Corporate Bonus Plan.

Named Executive Officer	Target (and Maximum) Bonus for 2021
Sumedh S. Thakar	100%
Philippe F. Courtot	100%
Joo Mi Kim	50%
Bruce K. Posey	50%

For 2021, the performance metrics used to determine bonuses continued to be (i) growth in our bookings for the applicable quarter over the same quarter of the prior year, (ii) growth in revenue from the same quarter in 2020 and (iii) non-GAAP earnings per diluted share, with all three metrics weighted equally. Our Compensation and Talent Committee selected these three metrics, which measure sales growth and profitability, as the corporate performance metrics that best supported our annual operating plan and enhance long-term value creation.

These three metrics were calculated as follows:

- Bookings was calculated as the sum of subscribed revenues for all new, renewal and upsell subscriptions contracted by customers and channel partners in each quarter. The subscribed revenues were based on the amount of subscription contracted if the term is one year or less and were capped at one year's worth of subscribed revenues if the subscription term exceeds one year. The bookings growth measure is an internal measure and is a non-GAAP financial measure.
- Revenue was determined in accordance with GAAP and set forth in our quarterly and annual financial statements.
- Non-GAAP earnings per diluted share measure was calculated as GAAP net income adjusted for (i) stock-based compensation expense, (ii) amortization of acquired technology, (iii) non-recurring charges such as acquisition related expenses, (iv) bonus expense recorded during the period and (v) the related income tax effects of these adjustments, divided by weighted average shares (diluted) for the applicable quarter. The repurchase of shares under our share repurchase program was considered when calculating non-GAAP earnings per diluted share to avoid any unintended increase in the amount of actual awards under our 2021 Cash Bonus Plan. Appendix B contains a reconciliation of this non-GAAP financial measure to its most directly comparable GAAP measure.

For each of the three metrics, performance may be adjusted to remove the effects of charges for restructurings, discontinued operations, extraordinary items and all items of gain, loss or expense determined to be extraordinary or unusual in nature or related to the disposal of a segment of a business or related to a change in accounting principle, asset write-downs, litigation, claims, judgments or settlements, the effect of changes in tax law or other such laws or provisions affecting reported results, accruals for reorganization and restructuring programs. These exclusions are intended so that performance can be evaluated on organic foreseeable results rather than extraordinary transactions outside the scope of the Compensation and Talent Committee's forecasts. The Compensation and Talent Committee made no adjustments to these metrics in 2021.

The target award amounts for our named executive officers (other than Mr. Peters) in each quarter of 2021 were as follows:

2021 Corporate Bonus Plan Target Awards

Named Executive Officer	Q1 Target*	Q2 Target	Q3 Target	Q4 Target**	Total Target
Sumedh S. Thakar	$100,000	$137,500	$137,500	$137,500	$512,500
Philippe F. Courtot	112,500	—	—	—	112,500
Joo Mi Kim	42,500	42,500	42,500	51,250	178,750
Bruce K. Posey	41,250	41,250	41,250	45,000	168,750

* Mr. Thakar's Q1 target is lower than the targets for the last three quarters because it reflects his base salary prior to the increase approved by our board of directors effective April 27, 2021.

** For Ms. Kim and Mr. Posey, their Q4 targets are higher than their targets for the earlier quarters because it reflects the base salary increases approved by our board of directors effective November 1, 2021.

Each named executive officer's bonus is paid as a percentage of his or her target incentive amount based on the weighted average of the payout percentages for each applicable measure. To be eligible for a quarterly bonus payment under our 2021 Corporate Bonus Plan, an individual must be employed as of the last day of the quarter.

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

The following table shows the level of achievement of each quarterly performance target under our 2021 Corporate Bonus Plan and the corresponding payout for each of these quarterly performance targets:

	Q1			Q2			Q3			Q4		
	Target	Actual	Payout	Target	Actual	Payout	Target	Actual	Payout	Target	Actual	Payout
Bookings Growth	8.8%	*	100%	16.3%	*	100%	12.5%	*	100%	13.3%	*	100%
Rev Growth**	10.3%	12.2%	100%	10.7%	12.2%	100%	11.0%	12.7%	100%	11.4%	15.8%	100%
Non-GAAP EPS**	$0.71	$0.74	100%	$0.65	$0.79	100%	$0.68	$0.86	100%	$0.62	$0.84	100%
Weighted Payout			100%			100%			100%			100%

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

** Revenue growth targets were set to be higher in the second half of the year given the planned increase in investments to accelerate growth. In line with this operating plan, non-GAAP EPS targets were set to be lower in the second half of the year given the anticipated increase in investment.

Based on the achievement against the applicable performance measures discussed above, the quarterly and aggregate actual amounts awarded to our named executive officers (other than Mr. Peters) for 2021 were as follows:

2021 Corporate Bonus Plan—Actual Award Amount

Named Executive Officer	Q1 Award Amount	Q2 Award Amount	Q3 Award Amount	Q4 Award Amount	Total Amount
Sumedh S. Thakar	$100,000	$137,500	$137,500	$137,500	$512,500
Philippe F. Courtot	—	—	—	—	—
Joo Mi Kim	42,500	42,500	42,500	51,250	178,750
Bruce K. Posey	41,250	41,250	41,250	45,000	168,750

Sales Incentive Compensation Plan

Since Mr. Peters' responsibilities are based primarily on his ability to drive sales, his non-equity incentive plan compensation opportunity was provided under our Sales Incentive Compensation Plan instead of our 2021 Corporate Bonus Plan. Mr. Peters had a target sales incentive compensation opportunity under our Sales Incentive Compensation Plan equal to 100% of his base salary.

As a participant in our Sales Incentive Compensation Plan, Mr. Peters received a non-recoverable draw from his hire date to September 30, 2021, in an amount equal to 100% of his target sales incentive compensation opportunity for such period. After the non-recoverable draw period, he was given an opportunity to receive payment based on the year-over-year growth in our new bookings (which was weighted 60%) and our upsell bookings (which was weighted 40%). Our Compensation and Talent Committee decided that these two metrics and this weighting best supported our short-term sales goals given our focus on new customer acquisition.

The two bookings metrics under our Sales Incentive Compensation Plan were calculated as follows:

- New bookings was calculated as the sum of subscribed revenues for all subscriptions contracted (in the quarter) by customers that either had never previously purchased a Qualys product, license, or service or had neither been under contract nor purchased or received any Qualys product, license, or service for 12 months.
- Upsell bookings was calculated as the sum of (i) the subscribed revenues added (in the quarter) before the term of existing contracts and (ii) the incremental subscribed revenues exceeding the subscribed revenues of the original contracts that were being renewed in the quarter (i.e., the total subscribed revenues minus the subscribed revenues that result from the customers' renewed or extended commitments to pay subscription fees for Qualys' services that were provided to the customers under their prior or existing contracts).

For each metric, the subscribed revenues were based on the amount of subscription contracted if the term is one year or less and were capped at one year's worth of subscribed revenues if the subscription term exceeds one year. The measures were internal measures and are non-GAAP financial measures.

Mr. Peters' sales incentive compensation for the fourth quarter of 2021 was paid as a percentage of his target sales incentive compensation amount based on the weighted average of the payout percentages for each applicable measure. For each of the two measures, the payout percentage was capped at 200% of target. Our Compensation and Talent Committee believed that achieving the top end of the targets would be sufficiently challenging and incentivize top-end performance. Payout could be zero if performance is below minimum levels for both measures. To be eligible for a sales incentive compensation payment under our Sales Incentive Compensation Plan, Mr. Peters must be employed as of the last day of the quarter.

Based on the achievement against the applicable performance measures, the actual amount paid to Mr. Peters under our Sales Incentive Compensation Plan for the fourth quarter of 2021 was $145,194 (which was 179% of target).

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

Equity Compensation

We use equity awards to incentivize and reward strong long-term corporate performance and to align the interests of our named executive officers with those of our stockholders. In 2021, we introduced performance-based equity awards for our non-CEO named executive officers. As a result, the equity awards we granted to our named executive officers in 2021 were a mix of time-based restricted stock units ("RSUs") and performance-based restricted stock units ("PRSUs"). RSUs serve to retain our named executive officers over the long term and align with our objective of long-term stockholder value creation. PRSUs drive long-term stockholder value creation and more strongly aligns our named executive officers' interests with the interests of the Company and its stockholders. The PRSUs will provide significant value to our named executive officers only if the Company achieves specific operational goals since the PRSUs will vest only if these goals are achieved.

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

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

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

The equity awards granted to our named executive officers in 2021 are set forth in the sections entitled "*2021 Summary Compensation Table*" and "*Grants of Plan-Based Awards in 2021 Table*" below.

New Hire Grant

In August 2021, our Compensation and Talent Committee approved an initial new hire award of 29,215 RSUs to Mr. Peters as a form of inducement to join and remain with Qualys. The RSU award had an intended value of $3,000,000, which was converted into a number of RSUs by dividing the intended value by the average closing price of our common stock for the 30-trading-day-period ending seven days before the grant date. The RSU award vests over a 4 year period as to 25% of the RSUs on June 1, 2022, and as to $1/16^{th}$ of the RSUs each quarter thereafter, subject to Mr. Peters' continued service with us. We subsequently granted an equity award to Mr. Peters consisting entirely of PRSUs that resulted in approximately 30% of the intended target value of the awards granted to Mr. Peters in 2021 (in the aggregate) being performance-based, which aligned with the approach taken for our other non-CEO named executive officers. The vesting of the RSU award would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below.

CEO Appointment Grants

In April 2021, in connection with Mr. Thakar's appointment as our CEO, our board of directors approved the grant of an award of 9,671 PRSUs at the target level of performance (or 19,342 PRSUs at the maximum level of performance) and an award of 9,671 RSUs.

The RSU award will vest quarterly in equal installments over four years from the vesting commencement date of May 1, 2021, subject to Mr. Thakar's continued service with us as of each vesting date.

The PRSU award will vest based on the same financial targets previously set for performance-based award granted to Mr. Courtot (compound annual growth rate of the Company's revenues for a three-year performance period from January 2021 through December 2023 and the compound annual growth rate of the Company's free cash flow per share for the same three-year performance period). The two metrics were calculated as follows:

- Revenue was determined in accordance with GAAP in effect on the date of grant, subject to adjustments to exclude the effects of acquisitions and/or dispositions during the performance period.
- Free cash flow per share was calculated as (i) calendar year cash flows provided by operating activities, determined according to GAAP in effect on the date of grant, less (A) purchases of property and equipment, less (B) principal payments under capital lease obligations, divided by (ii) weighted average dilutive shares outstanding for such calendar year.

In addition, the vesting of these equity awards would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below.

Annual Equity Grants

In 2021, based on feedback from our stockholders, our Compensation and Talent Committee determined that, in addition to the annual equity grants to our CEO, the annual equity grants to our other named executive officers should include performance-based equity awards. As a result, the annual equity grants to our named executive officers (other than Mr. Peters) for 2021 consisted of a mix of RSUs and PRSUs. Mr. Peters' annual equity grant consisted entirely of PRSUs, in light of his having received a new hire grant of RSUs upon the commencement of his employment with us. Mr. Courtot was not granted any equity awards in 2021. Our board of directors approved these annual equity grants to our named executive officers in October 2021.

The RSUs granted to our named executive officers vest over four years and serve to retain our named executive officers over a long-term period and align with our objective of long-term stockholder value creation. The vesting of the RSUs is subject to the applicable named executive officer's continued service with us as of each vesting date.

Each named executive officer's PRSUs are divided into three tranches with one-year performance periods covering the calendar years 2022, 2023, and 2024, respectively. One-third of the target number of PRSUs is allocated to each tranche. Each tranche will become eligible to vest based on the annual growth rate of the Company's revenues and the Company's adjusted EBITDA margin for the applicable performance period. These two metrics were calculated as follows:

- Revenue was determined in accordance with GAAP in effect on the date of grant, subject to adjustments to exclude the effects of acquisitions and/or dispositions during the performance period.
- Adjusted EBITDA margin was calculated as (i) net income (loss) for the performance period before (A) other (income) expense, net, which includes interest income, interest expense and other income and expense, (B) provision for (benefit from) income taxes, (C) depreciation and amortization of property and equipment, (D) amortization of intangible assets, and (E) stock-based compensation, divided by (ii) revenue for the performance period, subject to adjustments to exclude the effects of acquisitions and/or dispositions during the performance period.

The revenue growth and adjusted EBITDA margin targets for the second and third tranches will be based on the Company's annual operating plan for the applicable year, which will be determined our board of directors before the start of that year.

Any PRSUs that become eligible to vest will be scheduled to vest according to the following schedule, subject to the applicable named executive officer's continued service through the applicable vesting date:

- For the first and second tranches, up to 100% of the target number of PRSUs allocated to the tranche will vest on the date that performance is certified for that tranche, and any remaining PRSUs that became eligible to vest ("Over Performance Amount") will vest on the date that performance is certified for the third tranche.
- For the third tranche, all of the PRSUs that became eligible to vest will vest on the date that performance is certified for that tranche.

In designing the vesting structure of these PRSUs, our Compensation and Talent Committee sought to balance the short-term and long-term incentive and retention aspects of the PRSUs, by allowing the named executive officers to vest in up to the target number of PRSUs each year but requiring continued service for approximately 3 years in order to vest in any excess number of PRSUs that are earned based on over-achievement of the performance goals.

In addition, the vesting of these RSUs and PRSUs would accelerate upon the occurrence of certain specified events, as described in the section entitled "*Potential Payments Upon Termination or Change in Control*" below.

The number of shares of our common stock covered by the RSUs and PRSUs and their intended value at the time of grant are listed in the table below.

Named Executive Officer	Number of Time-Based RSUs[1]	Intended Value of Time-Based RSUs	Number of PRSUs at Target Level of Performance[1][2]	Intended Value of PRSUs at Target Level of Performance	Number of PRSUs at Maximum Level of Performance[1]	Intended Value of PRSUs at Maximum Level of Performance
Sumedh S. Thakar	39,288	$4,500,000	39,288	$4,500,000	78,576	$9,000,000
Joo Mi Kim	33,100	$3,791,200	14,186	$1,624,800	28,372	$3,249,600
Allan Peters	—	—	10,914	$1,250,000	21,828	$2,500,000
Bruce K. Posey	20,779	$2,380,000	8,906	$1,020,000	17,812	$2,040,000

(1) For each of these equity awards, the intended value of each equity award was translated into a number of RSUs or PRSUs, as applicable, by dividing the intended value by $114.54, which was the average closing price of our common stock for the 30-trading-day-period ending seven days before the grant date.

(2) These PRSU awards are divided into three tranches with one-year performance periods covering the calendar years 2022, 2023, and 2024, respectively. One-third of the target number of PRSUs is allocated to each tranche. Two-thirds of the target number of PRSU awards are subject to performance goals to be set at a future date.

Understanding the Differences: Reported PRSUs in the 2021 Summary Compensation Table vs. Target PRSUs Approved by the Compensation and Talent Committee

As discussed above, the PRSUs awarded to our named executive officers in October 2021 vest annually over a three-year period based on the attainment of performance goals that are set and measured in each year of the three-year period. This results in differences between the reported PRSU award grant date fair value ("GDFV") in the "*2021 Summary Compensation Table*" and the target PRSU award GDFV that was approved by the Compensation and Talent Committee.

The differences in GDFVs are due to the SEC requirement that PRSU award values disclosed in the 2021 Summary Compensation Table reflect the GDFV of the PRSU as determined under FASB ASC Topic 718, which stipulates that grant date is established when the underlying terms of the award are fixed. Because the performance goals for the PRSU awards granted in October 2021 are set on an annual basis, the grant date and associated award fair value are established annually over the three-year performance period—resulting in differences between what is reported in the 2021 Summary Compensation Table and the amount of the award the Compensation and Talent Committee originally awarded. In years when the stock price declines, reported PRSU award GDFV will be lower than the target GDFV. In years when the stock price increases, reported PRSU award GDFV will exceed the target GDFV.

Retirement and Other Benefits

Our named executive officers participate in the same retirement plan as other U.S.-based full-time employees. We maintain a tax-qualified 401(k) 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. Before the amendment to the 401(k) plan that was approved by our board of directors in April 2021, we matched 50% on the dollar up to the first 6% contributed with no vesting period, for our employees, including our named executive officers. The amendment increased the amount of the matching contribution to 100% on the dollar up to the first 6% contributed, effective as of June 1, 2021. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The 401(k) plan is intended to qualify under Section 401(a) of the Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made.

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

Perquisites and Other Personal Benefits

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

Change in Control and Severance Benefits

Ms. Kim's and Mr. Peters' employment offer letters provided for certain protections in the event of termination of their employment under specified circumstances. In addition, certain equity awards granted to our named executive officers provided for acceleration of vesting upon termination of their employment under specified circumstances or upon a change in control of the Company.

In 2021, in connection with its regular review of our executive compensation program and market practices, our Compensation and Talent Committee recommended that our board of directors approve updated severance and change of control benefits for our named executive officers, in order to bring the severance and change of control arrangements with our named executive officers more in line with market practices. Accordingly, our board of directors approved (i) a severance and change of control policy for our CEO in April 2021, in connection with Mr. Thakar's appointment as CEO, and (ii) for our other named executive officers in October 2021. None of these severance and change of control benefits applied to Mr. Courtot. The severance and change of control benefits under these policies supersede any prior agreement or arrangement the named executive officers may have had with us that provided for severance and/or change in control payments or benefits (other than any existing vesting acceleration benefits upon a termination due to death or disability).

Under these policies, in the event of a qualifying termination of the employment of a named executive officer that is not in connection with a change in control, the named executive officer will receive the following benefits:

- severance pay equal to (i) in the case of the CEO, 12 months of the CEO's annual base salary, or (ii) in the case of each of the other named executive officers, (A) 3 months of the named executive officer's annual base salary, if he or she has been employed by us for less than 1 year, (B) 6 months of the named executive officer's annual base salary, if he or she has been employed by us for at least 1 year but not more than 5 years, or (C) 9 months of the named executive officer's annual base salary, if he or she has been employed by us for more than 5 years; and

- payment or reimbursement of premiums for coverage under COBRA for the named executive officer and his or her eligible dependents, if any, for up to the number of months of annual base salary that the named executive officer is entitled to receive under the previous bullet or taxable monthly payments for the equivalent period in the event payment of the COBRA premiums would violate or be subject to an excise tax under applicable law.

In the event of a qualifying termination of the employment of a named executive officer in connection with a change in control, the named executive officer will receive the following benefits:

- severance pay equal to 100% (or in the CEO's case, 150%) of the named executive officer's annual base salary and target annual bonus;
- payment or reimbursement of premiums for coverage under COBRA for the named executive officer and his or her eligible dependents, if any, for up to 12 months (or in the CEO's case, 18 months) or taxable monthly payments for the equivalent period in the event payment of the COBRA premiums would violate or be subject to an excise tax under applicable law; and
- accelerated vesting and exercisability as to 100% of any then-unvested equity awards (including any Overperformance Amount), with performance-based equity awards vesting at target levels of performance for future performance periods. The payout will include already achieved cumulative performance over 100% up to the end of the prior performance period.

We believe that these arrangements maximize stockholder value by minimizing any potential distractions caused by the possibility of an involuntary termination or a potential change in control, which allows our named executive officers to maintain their focus and dedication to their responsibilities. We believe that these arrangements also provide further retention value by encouraging our named executive officers to continue providing services to us.

Mr. Courtot's termination of employment constituted a termination on account of disability, which resulted in his receipt of the applicable vesting acceleration benefits under the terms of his equity awards. The Compensation and Talent Committee did not provide Mr. Courtot with any additional payments or benefits in connection with his termination beyond those provided for under the terms of his equity awards.

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

Compensation Policies

Hedging and Pledging Policy

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

Stock Ownership Guidelines and Equity Holding Policy

In February 2019, we adopted stock ownership guidelines that set minimum stock ownership requirements for our non-employee directors and executive officers (including our named executive officers), in order to more closely align their interests with the long-term interests of our stockholders. Under the guidelines, each executive officer is required to own a number of shares of our common stock with a value equal to a specified multiple of his or her base salary. For 2021, shares of the Company's common stock (including shares beneficially owned) and vested and exercisable "in-the-money" stock options count towards satisfaction of the stock ownership levels. In April 2022, our board of directors approved a change to the guidelines such that only shares of the Company's common stock (including shares beneficially owned) will count towards satisfaction of the stock ownership levels. Consistent with emerging best practices, vested and exercisable stock options will no longer be counted towards satisfying the guidelines.

Each executive officer must satisfy his or her applicable ownership level by the later of (i) February 8, 2024 or (ii) five years after becoming an executive officer. Compliance with these guidelines is measured based on the executive officer's annual base salary and the closing price of the Company's common stock, in each case as of December 31 of each year (or the next trading day if December 31 is not a trading day). Unless and until an executive officer has satisfied his or her applicable level of ownership, he or she is required to retain an amount equal to 50% of the shares received as the result of the exercise, vesting or payment of any equity awards after any shares are sold or withheld, as the case may be, to (i) pay any applicable exercise price for an equity award or (ii) satisfy withholding tax obligations arising in connection with the exercise, vesting or payment of an equity award. In addition, all shares subject to performance-based vesting generally must be held and not disposed of for at least three years from the date of grant of the underlying award.

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

* Mr. Peters became an executive officer in October 2021 and has until October 2026 to satisfy his stock ownership requirement.

Clawback Policy

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

Tax and Accounting Considerations

Deductibility of Executive Compensation

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

An exception to the $1 million limitation for performance-based compensation meeting certain requirements was repealed beginning in 2018 (other than with respect to certain grandfathered arrangements) under the Tax Cuts and Jobs Act (the “Act”). Under the transition relief provisions of the Act, it is possible that certain of the equity awards we granted prior to 2018 may be grandfathered and eligible to be excluded from the Section 162(m) deduction limits. Except for any equity awards that qualify for such transition relief provisions, compensation paid to any of our covered executives generally will not be deductible in 2021 or future years, to the extent that it exceeds $1 million.

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

“Parachute Payments” and Deferred Compensation

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

In 2021, we did not provide any of our named executive officers with a “gross-up” or other reimbursement payment for any excise tax liability that he or she might owe as a result of the application of Sections 280G or 4999 or for any additional tax that he or she might owe as a result of the application of Section 409A. We have not agreed and are not otherwise obligated to provide any named executive officer with such a “gross-up” or other reimbursement.

Accounting Considerations

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

Risk Considerations

Our Compensation and Talent Committee assesses risks created by the incentives inherent in our compensation policies. We have designed our executive compensation program so that our executive officers (including our named executive officers) focus on both short-term and long-term financial and operational performance. In addition, in 2021, our Compensation and Talent Committee had engaged Mercer to independently review our executive compensation program. Our Compensation and Talent Committee conducts an annual review of our executive compensation program to ensure that it continues to reward our executive officers (including our named executive officers) for creating short-term and long-term stockholder value without encouraging our executive officers to take excessive risks. Based on the results of these reviews, we do not believe that our executive compensation program creates risks that are reasonably likely to have a material adverse effect on us. The risk mitigation features include:

- Balance among short- and long-term incentives, cash and equity, fixed and variable pay
- Multiple performance metrics as targets
- Caps on pay
- Clawback policy
- Stock ownership
- Holding period requirement for performance-based equity
- Anti-hedging policies
- Double-trigger change in control requirement

Compensation Committee Report

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

Our Compensation and Talent Committee has reviewed and discussed with management the Compensation Discussion and Analysis provided above. Based on its review and discussions, the committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on February 22, 2022.

Respectfully submitted by the members of the Compensation and Talent Committee of the board of directors:

John Zangardi (Chair)
William Berutti
General Peter Pace
Kristi M. Rogers

2021 Summary Compensation Table

The following table provides information regarding the compensation of our named executive officers for fiscal years 2021, 2020 and 2019.

Name and Principal Position	Year	Salary ($)	Option Awards ($)(1)	Stock Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	All Other Compensation ($)	Total ($)
Sumedh S. Thakar	2021	502,308	—	8,364,620(3)	512,500	17,237(4)	9,396,664
Director, President and	2020	382,500	—	7,786,016	189,662	9,991	8,368,169
Chief Executive Officer	2019	335,125	—	6,536,835	137,094	12,361	7,021,415
Philippe F. Courtot (5)	2021	152,596	—	—	—	20,722,515(6)	20,875,111
Former Chief Executive	2020	418,333	11,526,569	10,033,788	416,144	3,517	22,398,351
Officer	2019	381,938	4,934,423	4,203,777	312,792	6,555	9,839,485
Joo Mi Kim (7)	2021	351,667	—	4,541,750(8)	178,750	16,282(9)	5,088,449
Chief Financial Officer	2020	169,167	—	5,583,069	83,750	25,467	5,861,453
Allan Peters (10)	2021	209,375	—	3,483,318(11)	258,276	9,793(12)	3,960,762
Chief Revenue Officer							
Bruce K. Posey	2021	335,000	—	2,851,185(13)	168,750	15,856(14)	3,370,791
Chief Legal Officer and	2020	315,833	—	3,114,445	156,591	7,722	3,594,591
Corporate Secretary	2019	282,125	—	2,772,037	115,459	7,468	3,177,089

(1) Option awards, RSU awards and PRSU awards are shown at their aggregate grant date fair value as determined in accordance with FASB ASC Topic 718. The fair value of each option grant is estimated based on the fair market value on the date of grant using the Black-Scholes-Merton option pricing model. The fair value of each RSU award and PRSU award is measured based on the closing price of our common stock on the date of grant. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For a discussion of valuation assumptions, see the stock-based compensation note to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 22, 2022.

(2) For Mr. Thakar, Mr. Courtot, Ms. Kim and Mr. Posey, the amounts in this column reflect cash incentives earned under our Corporate Bonus Plan for the applicable year. For Mr. Peters, the amounts in this column reflect sales commissions earned under his individualized sales incentive plan for the applicable fiscal year.

(3) This amount includes (a) the grant date fair value of a PRSU award granted in April 2021 in connection with Mr. Thakar's appointment as Chief Executive Officer totaling $1,037,698 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $2,075,397), and (b) the grant date fair value of the first tranche (representing 13,096 PRSUs) of a PRSU award granted in October 2021 totaling $1,572,306 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $3,144,612).

As discussed above in the "*Compensation Discussion and Analysis*" section, the performance metrics for the second and third tranches (representing an aggregate of 26,192 PRSUs) of the PRSU award granted to Mr. Thakar in October 2021 have not been established. As a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table.

(4) Reflects (a) 401(k) matching contributions by Qualys ($13,050), (b) a premium paid by Qualys for life insurance ($1,350), and (c) a premium paid by Qualys for supplemental disability insurance ($2,837).

(5) Mr. Courtot's employment with Qualys terminated on March 19, 2021.

(6) The Compensation and Talent Committee of our board of directors determined that Mr. Courtot's termination of employment on March 19, 2021 was a termination on account of disability. In accordance with the award agreements described below in the section entitled "*Potential Payments Upon Termination or Change in Control—Philippe F. Courtot*," the outstanding and unvested portion of the awards granted to Mr. Courtot on December 21, 2018, November 2, 2019 and December 10, 2020 was 100% fully accelerated as of the date of his termination of employment. Accordingly, this amount reflects (a) accelerated vesting with respect to an

aggregate of 126,659 RSUs (valued at $12,763,427, based on $100.77 per share, which was the closing price per share on the Nasdaq Stock Market of our common stock on March 19, 2021), (b) accelerated vesting with respect to an aggregate of 44,119 PRSUs (valued at $4,445,872, based on $100.77 per share, which was the closing price per share on the Nasdaq Stock Market of our common stock on March 19, 2021), (c) accelerated vesting with respect to an aggregate of 347,600 performance-based stock options (valued at $3,506,595, based on $100.77 per share, which was the closing price per share on the Nasdaq Stock Market of our common stock on March 19, 2021, minus the aggregate exercise price), (d) a premium paid by Qualys for life insurance ($5,289), and (e) a premium paid by Qualys for supplemental disability insurance ($1,332).

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

(8) This amount includes the grant date fair value of the first tranche (representing 4,729 PRSUs) of a PRSU award granted in October 2021 totaling $567,764 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $1,135,527).

As discussed above in the "*Compensation Discussion and Analysis*" section, the performance metrics for the second and third tranches (representing an aggregate of 9,457 PRSUs) of the PRSU award granted to Ms. Kim in October 2021 have not been established. As a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table.

(9) Reflects (a) 401(k) matching contributions by Qualys ($13,050), (b) a premium paid by Qualys for life insurance ($900), and (c) a premium paid by Qualys for supplemental disability insurance ($2,332).

(10) Mr. Peters joined Qualys on May 10, 2021 and was determined by our board of directors to be an executive officer of Qualys on October 28, 2021.

(11) This amount includes the grant date fair value of the first tranche (representing 3,638 PRSUs) of a PRSU award granted in October 2021 totaling $436,778 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $873,557).

As discussed above in the "*Compensation Discussion and Analysis*" section, the performance metrics for the second and third tranches (representing an aggregate of 7,276 PRSUs) of the PRSU award granted to Mr. Peters in October 2021 have not been established. As a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table.

(12) Reflects (a) 401(k) matching contributions by Qualys ($6,797), (b) a premium paid by Qualys for life insurance ($2,258), and (c) a premium paid by Qualys for supplemental disability insurance ($738).

(13) This amount includes the grant date fair value of the first tranche (representing 2,969 PRSUs) of a PRSU award granted in October 2021 totaling $356,458 based upon the probable outcome of performance conditions (if maximum performance is achieved, the aggregate grant date fair value of such award is $712,916).

As discussed above in the "*Compensation Discussion and Analysis*" section, the performance metrics for the second and third tranches (representing an aggregate of 5,937 PRSUs) of the PRSU award granted to Mr. Posey in October 2021 have not been established. As a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table.

(14) Reflects (a) 401(k) matching contributions by Qualys ($5,575), (b) a premium paid by Qualys for life insurance ($5,677), and (c) a premium paid by Qualys for supplemental disability insurance ($4,604).

Grants of Plan-Based Awards in 2021 Table

The following table shows information regarding cash incentive and equity awards granted to our named executive officers during 2021.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards[2]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Type of Award[1]**	**Threshold ($)[4]**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**Units**	**Options**	**($/Sh)**	**($)[3]**
Sumedh S. Thakar	—	Cash Incentive	205,000	512,500	512,500	—	—	—	—	—	—	—
	4/27/21	Time-based RSUs	—	—	—	—	—	—	9,671	—	—	1,037,698
	4/27/21	PRSUs	—	—	—	—	9,671[5]	19,342	—	—	—	1,037,698
	10/28/21	Time-based RSUs	—	—	—	—	—	—	39,288	—	—	4,716,917
	10/28/21	PRSUs	—	—	—	—	13,096[6]	26,192	—	—	—	1,572,306
Philippe F. Courtot	—	Cash Incentive	45,000	112,500	112,500	—	—	—	—	—	—	—
Joo Mi Kim	—	Cash Incentive	71,500	178,750	178,750	—	—	—	—	—	—	—
	10/28/21	Time-based RSUs	—	—	—	—	—	—	33,100	—	—	3,973,986
	10/28/21	PRSUs	—	—	—	—	4,729[6]	9,458	—	—	—	567,764
Allan Peters	—	Cash Incentive	121,613	194,332	275,582	—	—	—	—	—	—	—
	8/3/21	Time-based RSUs	—	—	—	—	—	—	29,215	—	—	3,046,540
	10/28/21	PRSUs	—	—	—	—	3,638[6]	7,276	—	—	—	436,778
Bruce K. Posey	—	Cash Incentive	67,500	168,750	168,750	—	—	—	—	—	—	—
	10/28/21	Time-based RSUs	—	—	—	—	—	—	20,779	—	—	2,494,727
	10/28/21	PRSUs	—	—	—	—	2,969[6]	5,938	—	—	—	356,458

(1) Time-based RSUs and PRSUs were granted under our 2012 Equity Incentive Plan.

(2) For our named executive officers other than Mr. Peters, the amounts reported represent cash incentive compensation opportunities under our 2021 Corporate Bonus Plan. For Mr. Peters, the amount reported represents the cash incentive compensation opportunity under his individualized 2021 sales incentive compensation plan.

(3) Amounts reported in this column represent the grant date fair value of stock awards, calculated in accordance with FASB ASC Topic 718. The fair value of each RSU award is measured based on the closing price of our common stock on the date of grant, excluding the impact of estimated forfeitures related to service-based vesting conditions. The fair value of each PRSU award is based upon the probable outcome of the performance conditions, consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. Pursuant to FASB ASC Topic 718, the accounting grant date for each PRSU award is the date the performance metrics are approved by the Compensation and Talent Committee and communicated to the employee. As discussed above in the "*Compensation Discussion and Analysis*" section, the performance metrics for the second and third tranches of the PRSU awards granted to our named executive officers in October 2021 have not been established. As a result, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table.

(4) For our named executive officers other than Mr. Peters, the amounts reported in this column represent the payout under our 2021 Corporate Bonus Plan based on the minimum amounts payable for certain levels of performance for all three performance measures. Payout could be zero if performance is below minimum levels for all three measures. For Mr. Peters, $113,082 of the amount reported was guaranteed under his individualized 2021 sales incentive compensation plan.

(5) This PRSU award was granted at target on the grant date. Subject to continued service through the date that performance is certified, the number of shares that will vest under this PRSU award will vary from 0% to 200% of target based on the compound annual growth rate of the Company's revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period.

(6) This PRSU award was granted at target on the grant date. As discussed above in the "*Compensation Discussion and Analysis*" section, the number of shares subject to this PRSU award represents the first of three tranches of a multi-year PRSU award that was approved by the Compensation and Talent Committee. Subject to continued service through the date that performance is certified, the number of shares that will vest under this PRSU award will vary from 0% to 200% of target based on the annual growth rate of the Company's revenues and the Company's achievement of Adjusted EBITDA margin targets for 2022, except that vesting and release of this PRSU award is capped at 100% of target performance for 2022, with cumulative achievement over 100% to be vested and released at the end of 2024. Because the performance metrics for the second and third tranches of the PRSU awards granted to our named executive officers in October 2021 have not been established, there is no reportable grant date fair value under FASB ASC Topic 718 for such tranches, and they are not included in this table. Accordingly, the reported grant date fair value of this PRSU award differs from the award value approved by our Compensation and Talent Committee.

Outstanding Equity Awards at 2021 Year-End Table

The following table presents information regarding stock options held by our named executive officers as of December 31, 2021.

	Option Awards(1)					
Name	**Grant Date**	**Vesting Commencement Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**
Sumedh S. Thakar	4/28/2016	4/28/2016	136,000(2)	—	25.56	4/27/2026
	7/30/2015	7/30/2015	50,000(2)	—	37.28	7/29/2025
	10/30/2014	10/30/2014	75,000(2)	—	30.58	10/29/2024
	8/1/2014	6/1/2014	50,000(2)	—	23.51	7/31/2024
	5/2/2014	5/2/2014	10,011(2)	—	19.26	5/1/2024
Bruce K. Posey	4/28/2016	4/28/2016	36,300(2)	—	25.56	4/27/2026
	6/6/2012	5/21/2012	29,244(2)	—	8.90	6/5/2022

(1) All stock options referenced in this table were granted under our 2012 Equity Incentive Plan.

(2) Each of these options was fully vested as of December 31, 2021.

The following table presents information regarding stock awards held by our named executive officers as of December 31, 2021.

		Stock Awards(1)			
Name	**Grant Date**	**Number of Shares or Units of Stock That Have Not Vested (#)[2]**	**Market Value of Shares or Units of Stock That Have Not Vested ($)[3]**	**Equity Incentive Plan Awards: Number of Unearned Shares or Units of Stock That Have Not Vested (#)[4]**	**Equity Incentive Plan Awards: Market Value of Unearned Shares or Units of Stock That Have Not Vested ($)[3]**
Sumedh S. Thakar	10/28/2021	—	—	13,096[5]	1,797,033
	10/28/2021	39,288[6]	5,391,099	—	—
	4/27/2021	—	—	9,671[7]	1,327,055
	4/27/2021	8,463[8]	1,161,293	—	—
	10/27/2020	60,810[9]	8,344,348	—	—
	10/24/2019	41,107[10]	5,640,703	—	—
	10/25/2018	16,776[11]	2,302,003	—	—
Joo Mi Kim	10/28/2021	—	—	4,729[5]	648,913
	10/28/2021	33,100[6]	4,541,982	—	—
	10/27/2020	7,602[9]	1,043,146	—	—
	7/29/2020	26,053[12]	3,574,993	—	—
Allan Peters	10/28/2021	—	—	3,638[5]	499,206
	8/3/2021	29,215[13]	4,008,882	—	—
Bruce K. Posey	10/28/2021	—	—	2,969[5]	407,406
	10/28/2021	20,779[6]	2,851,294	—	—
	10/27/2020	24,324[9]	3,337,739	—	—
	10/24/2019	17,432[10]	2,392,019	—	—
	10/25/2018	5,867[11]	805,070	—	—

(1) All stock awards referenced in this table were granted under our 2012 Equity Incentive Plan.

(2) Stock awards in this column consist of unvested time-based RSUs.

(3) Values reported were computed by multiplying (i) $137.22, the closing price on the Nasdaq Stock Market of our common stock on December 31, 2021, the last business day of fiscal 2021, by (ii) the number of shares or units of stock.

(4) Stock awards in this column consist of unvested PRSUs. Amounts reported are based on target performance measures.

(5) As discussed above in the "*Compensation Discussion and Analysis*" section, the number of shares subject to this PRSU award represents the first of three tranches of a multi-year PRSU award with one-year performance periods covering the calendar years 2022, 2023, and 2024, respectively. Subject to continued service, each tranche will become eligible to vest based on the annual growth rate of the Company's revenues and the Company's adjusted EBITDA margin for the applicable performance period, except that vesting and release of the PRSUs is capped at 100% of target performance in each of the first two years of the performance period, with cumulative achievement over 100% to be vested and released at the end of the third year of the performance period. Because the performance metrics for the second and third tranches of the PRSUs have not been established, such awards are not considered granted or outstanding under FASB ASC Topic 718 and are not included in this table.

(6) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2022.

(7) Subject to continued service through the date that performance is certified, the number of shares that will vest under this PRSU award will vary from 0% to 200% of target based on the compound annual growth rate of the Company's revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period.

(8) The RSUs vest quarterly in equal installments over four years, with the first vesting date on August 1, 2021.

(9) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2021.

(10) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2020.

(11) The RSUs vest quarterly in equal installments over four years, with the first vesting date on February 1, 2019.

(12) The RSUs vest quarterly in equal installments over four years, with the first vesting date on October 1, 2020.

(13) The RSUs vest over four years, with 25% of the RSUs vesting on June 1, 2022, and the remaining RSUs vesting quarterly in equal installments thereafter.

Option Exercises and Stock Vested in 2021 Table

The following table sets forth the number of shares of common stock acquired during 2021 by our named executive officers upon the exercise of stock options and the vesting of restricted stock unit awards and the value realized upon such exercise or vesting.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)(2)**
Sumedh S. Thakar	56,500	6,487,418	86,814	10,256,705
Philippe F. Courtot	347,600	15,633,280	224,204	24,246,231
Joo Mi Kim	—	—	12,006	1,335,567
Allan Peters	—	—	—	—
Bruce K. Posey	56,000	5,873,840	27,709	3,268,378

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

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

Pension Benefits & Nonqualified Deferred Compensation

We do not provide a pension plan for our employees, and no named executive officers participated in a nonqualified deferred compensation plan during 2021.

Potential Payments Upon Termination or Change in Control

Sumedh S. Thakar Equity Award Agreements

Mr. Thakar was granted (i) on October 25, 2018, an award of 67,104 RSUs, with a vesting commencement date of November 1, 2018, which was his annual refresh award for 2019, (ii) on October 24, 2019, an award of 82,214 RSUs with a vesting commencement date of November 1, 2019, which was his annual refresh award for 2020, (iii) on October 27, 2020, an award of 81,079 RSUs with a vesting commencement date of November 1, 2020, which was his annual refresh award for 2021. These awards, which were each granted pursuant to the 2012 Plan and an individual RSU agreement thereunder, are scheduled to vest in equal quarterly installments over four years following the applicable vesting commencement date, subject in each case to Mr. Thakar's continued service through each such date. If, within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, Mr. Thakar's employment is terminated by Qualys other than for "cause" (as defined in the respective RSU agreement), death or disability, or he resigns for "good reason" (as defined in the respective RSU agreement), then, in each case, subject to the execution of a release of claims, 50% of the then-unvested portion of each award set forth above will accelerate. If Mr. Thakar's employment is terminated by reason of death or disability, 100% of the then-unvested portion of each award set forth above will accelerate.

The vesting acceleration provisions described above (other than the vesting acceleration upon a termination due to death or disability) were superseded by the severance and change of control policy for our CEO approved by our board of directors in April 2021, which is described below in the section entitled "*—Severance and Change of Control Policies.*"

In addition, Mr. Thakar was granted (i) on April 27, 2021, an award of 9,671 RSUs, with a vesting commencement date of May 1, 2021, (ii) on April 27, 2021, an award of PRSUs (covering a target number of 9,671 PRSUs) that are scheduled to vest based on achievement of goals related to revenue growth for a three-year period from January 2021 through December 2023 and free cash flow per share growth for the same three-year period, (iii) on October 28, 2021, an award of 39,288 RSUs, with a vesting commencement date of November 1, 2021, and (iv) on October 28, 2021, an award of PRSUs (covering a target number of 39,288 PRSUs) that are scheduled to vest based on achievement of goals related to the revenue growth for a three-year period from January 2022 through December 2024 and Adjusted EBITDA margin targets for the applicable year in the same three-year period. Each award is subject to the vesting acceleration provisions in the severance and change of control policy for our CEO. If Mr. Thakar's employment is terminated by reason of death or disability, then 100% of the then-unvested RSUs will accelerate, and for any PRSUs as to which the achievement of the relevant performance goals has not yet been certified, 100% of the target number of PRSUs will accelerate.

Philippe F. Courtot Equity Award Agreements

Mr. Courtot was granted on December 21, 2018, an award consisting of (i) 56,250 RSUs with a vesting commencement date of January 1, 2019, (ii) PRSUs (covering a target number of 33,089 PRSUs) that were scheduled to vest based on achievement of goals related to revenue growth for a three-year period from January 2019 through December 2021 and adjusted EBITDA margin for the 2021 fiscal year, subject to Mr. Courtot's continued service, and (iii) PRSUs (covering a target number of 33,088 PRSUs) that were scheduled to vest in three increments based on the achievement of goals related to revenue growth and adjusted EBITDA margin for each of the 2019, 2020 and 2021 fiscal years, subject to Mr. Courtot's continued service. The 56,250 RSUs were scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. This award of RSUs and PRSUs represented his annual refresh award for 2019 and was granted pursuant to the 2012 Plan and an individual RSU agreement thereunder.

Mr. Courtot was granted on November 2, 2019, (i) an award of 48,683 RSUs with a vesting commencement date of December 1, 2019, and (ii) performance-based options covering a total of 123,856 shares at the target level of performance (or 247,712 shares at the maximum level of performance). These awards together represented his annual refresh award for 2020. Each of these awards were granted pursuant to the 2012 Plan and an individual RSU or stock option agreement thereunder. The 48,683 RSUs were scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. The performance-based options were scheduled to vest based on the compound annual growth rate of revenues for a three-year period from January 2020 through December 2022 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified.

Mr. Courtot was granted on December 10, 2020, (i) an award of 69,401 RSUs with a vesting commencement date of November 1, 2020, and (ii) performance-based options covering a total of 223,744 shares at the target level of performance (or 447,488 shares at the maximum level of performance). These awards together represented his annual refresh award for 2021 and were granted pursuant to the 2012 Plan and an individual RSU or stock option agreement thereunder. The 69,401 RSUs were scheduled to vest in equal quarterly increments over four years following the vesting commencement date, subject to Mr. Courtot's continued service through each such date. The performance-based options were scheduled to vest based on the compound annual growth rate of revenues for a three-year period from January 2021 through December 2023 and the compound annual growth rate of free cash flow per share for the same three-year period, subject to Mr. Courtot's continued service through the date that performance is certified.

The awards described above provided that if Mr. Courtot's employment was terminated by reason of death or disability, then 100% of the then-unvested RSUs, 100% of the target number of PRSUs, and 100% of the target number of shares subject to the performance-based options would accelerate.

The Compensation and Talent Committee of our board of directors determined that Mr. Courtot's termination of employment on March 19, 2021 was a termination on account of disability. In accordance with the foregoing award agreements, the outstanding and unvested portion of the awards was 100% fully accelerated (in the case of the PRSUs and performance-based options, at target levels) as of the date of his termination of employment. Based on $100.77 per share, which was the closing price per share on the Nasdaq Stock Market of our common stock on March 19, 2021, and minus the aggregate exercise price for stock options, the total value of this accelerated vesting was $20,715,894.

Joo Mi Kim Equity Award Agreements and Offer Letter

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

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

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

The severance and vesting acceleration provisions described above (other than the vesting acceleration upon a termination due to death or disability) were superseded by the severance and change of control policy for our non-CEO named executive officers approved by our board of directors in October 2021, which is described below in the section entitled "*—Severance and Change of Control Policies.*"

In addition, Ms. Kim was granted on October 28, 2021, (i) an award of 33,100 RSUs, with a vesting commencement date of November 1, 2021 and (ii) an award of PRSUs (covering a target number of 14,186 PRSUs) that are scheduled to vest based on achievement of goals related to the revenue growth for a three-year period from January 2022 through December 2024 and Adjusted EBITDA margin targets for the applicable year in the same three-year period. Each award is subject to the vesting acceleration provisions in the severance and change of control policy for our non-CEO named executive officers. If Ms. Kim's employment is terminated by reason of death or disability, then 100% of the then-unvested RSUs will accelerate, and for any PRSUs as to which the achievement of the relevant performance goals has not yet been certified, 100% of the target number of PRSUs will accelerate.

Allan Peters Equity Award Agreement and Offer Letter

Mr. Peters was granted on August 3, 2021, an award of 29,215 RSUs, with a vesting commencement date of November 1, 2021. If, within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, Mr. Peters' employment is terminated by Qualys other than for "cause" (as defined in the RSU agreement), death or disability, or he resigns for "good reason" (as defined in the RSU agreement), then 50% of the then-unvested portion of the award would accelerate, pursuant to his offer letter agreement dated April 26, 2021 and the RSU agreement).

In addition, pursuant to Mr. Peters' offer letter agreement, if his employment is terminated by Qualys without cause in the first year of his employment, he would be entitled to severance equal to 3 months of his base salary, subject to his entering into a separation agreement with and a general release of claims in favor of Qualys.

The severance and vesting acceleration provisions described above were superseded by the severance and change of control policy for our non-CEO named executive officers approved by our board of directors in October 2021, which is described below in the section entitled "*—Severance and Change of Control Policies.*"

In addition, Mr. Peters was granted on October 28, 2021, an award of PRSUs (covering a target number of 10,914 PRSUs) that are scheduled to vest based on achievement of goals related to the revenue growth for a three-year period from January 2022 through December 2024 and Adjusted EBITDA margin targets for the applicable year in the same three-year period. The award is subject to the vesting acceleration provisions in the severance and change of control policy for our non-CEO named executive officers. If Mr. Peters's employment is terminated by reason of death or disability, then for any PRSUs as to which the achievement of the relevant performance goals has not yet been certified, 100% of the target number of PRSUs will accelerate.

Bruce K. Posey Equity Award Agreements

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

If, within 12 months following a "change in control" (as defined in the 2012 Plan) of Qualys, Mr. Posey's employment is terminated by Qualys other than for "cause" (as defined in the respective RSU agreement), death or disability, or he resigns for "good reason" (as defined in the respective RSU agreement), then, in each case, subject to the execution of a release of claims, 50% of the then-unvested portion of each award set forth above will accelerate. If Mr. Posey's employment is terminated by reason of death or disability, 100% of the then-unvested portion of each award set forth above will accelerate.

The vesting acceleration provisions described above (other than the vesting acceleration upon a termination due to death or disability) were superseded by the severance and change of control policy for our non-CEO named executive officers approved by our board of directors in October 2021, which is described below in the section entitled "*—Severance and Change of Control Policies.*"

In addition, Mr. Posey was granted on October 28, 2021, (i) an award of 20,779 RSUs, with a vesting commencement date of November 1, 2021 and (ii) an award of PRSUs (covering a target number of 8,906 PRSUs) that are scheduled to vest based on achievement of goals related to the revenue growth for a three-year period from January 2022 through December 2024 and Adjusted EBITDA margin targets for the applicable year in the same three-year period. Each award is subject to the vesting acceleration provisions in the severance and change of control policy for our non-CEO named executive officers. If Mr. Posey's employment is terminated by reason of death or disability, then 100% of the then-unvested RSUs will accelerate, and for any PRSUs as to which the achievement of the relevant performance goals has not yet been certified, 100% of the target number of PRSUs will accelerate.

Severance and Change of Control Policies

Our board of directors approved (i) a severance and change of control policy for our CEO in April 2021, and (ii) for our other named executive officers in October 2021. The severance and change of control benefits under these policies supersede any prior agreement or arrangement the named executive officers may have had with us that provided for severance and/or change in control payments or benefits.

Under these policies, in the event of a qualifying termination of the employment of a named executive officer (other than Mr. Courtot) that is not in connection with a change in control, the named executive officer will receive the following benefits:

- severance pay equal to (i) in the case of Mr. Thakar, 12 months of his annual base salary, or (ii) in the case of each of the other named executive officers, (A) 3 months of the named executive officer's annual base salary, if he or she has been employed by us for less than 1 year, (B) 6 months of the named executive officer's annual base salary, if he or she has been employed by us for at least 1 year but not more than 5 years, or (C) 9 months of the named executive officer's annual base salary, if he or she has been employed by us for more than 5 years; and

- payment or reimbursement of premiums for coverage under COBRA for the named executive officer and his or her eligible dependents, if any, for up to the number of months of annual base salary that the named executive officer is entitled to receive under the previous bullet or taxable monthly payments for the equivalent period in the event payment of the COBRA premiums would violate or be subject to an excise tax under applicable law.

In the event of a qualifying termination of the employment of a named executive officer (other than Mr. Courtot) in connection with a change in control, the named executive officer will receive the following benefits:

- severance pay equal to 100% (or in Mr. Thakar's case, 150%) of the named executive officer's annual base salary and target annual bonus;
- payment or reimbursement of premiums for coverage under COBRA for the named executive officer and his or her eligible dependents, if any, for up to 12 months (or in Mr. Thakar's case, 18 months) or taxable monthly payments for the equivalent period in the event payment of the COBRA premiums would violate or be subject to an excise tax under applicable law; and
- accelerated vesting and exercisability as to 100% of any then-unvested equity awards (including any Overperformance Amount), with performance-based equity awards vesting at target levels of performance for future performance periods. The payout will include already achieved cumulative performance over 100% up to the end of the prior performance period.

Estimated Payments Upon Termination or Change in Control

The following table provides an estimate of the payments and benefits that would be provided in the circumstances described above for each of the named executive officers, assuming the triggering event took place on December 31, 2021 (the last business day of 2021) and based on the $137.22 closing price per share of our common stock on the Nasdaq Stock Market on that date. A number of factors may affect the nature and amount of any potential payments or benefits, and as a result, the payments and benefits actually paid (if any) may be different. For example, a triggering event may occur on a date other than December 31, 2021, the price per share of our common stock on the date of the triggering event may be higher or lower than $137.22 or the assumptions relied upon in the estimate of potential payments and benefits below may not reflect the actual circumstances of the triggering event. Accordingly, there is no guarantee that a triggering event would produce the same or similar results as those estimated below.

		Upon a Qualifying Termination of Employment(1)		
Name	**Type of Benefit**	**Not in Connection With a Change of Control ($)**	**In Connection With a Change of Control ($)**	**Upon Disability or Death ($)**
Sumedh S. Thakar	Vesting Acceleration	—	29,557,600	29,557,600
	Cash Severance	550,000	1,650,000	—
	COBRA Payments	27,995	41,992	—
	Total Termination Benefits	**577,995**	**31,249,592**	**29,557,600**
Joo Mi Kim	Vesting Acceleration	—	11,106,724	7,531,731
	Cash Severance	205,000	615,000	—
	COBRA Payments	4,485	8,969	—
	Total Termination Benefits	**209,485**	**11,730,693**	**7,531,731**
Allan Peters	Vesting Acceleration	—	5,506,501	1,497,619
	Cash Severance	81,250	650,000	—
	COBRA Payments	7,453	29,814	—
	Total Termination Benefits	**88,703**	**6,186,315**	**1,497,619**

Name	Type of Benefit	Upon a Qualifying Termination of Employment(1) Not in Connection With a Change of Control ($)	In Connection With a Change of Control ($)	Upon Disability or Death ($)
Bruce K. Posey	Vesting Acceleration	—	10,608,204	10,608,204
	Cash Severance	270,000	540,000	—
	COBRA Payments	20,996	27,995	—
	Total Termination Benefits	**290,996**	**11,176,199**	**10,608,204**

(1) The amounts listed represent the severance and vesting acceleration benefits described above in the section entitled "*Potential Payments Upon Termination or Change in Control*" as of December 31, 2021. For RSUs and PRSUs, the value of such vesting acceleration is computed by multiplying (i) the number of shares of our common stock subject to the RSUs or PRSUs that are being accelerated (at target for PRSUs) by (ii) the closing sales price per share of our common stock on December 31, 2021 ($137.22).

CEO Pay Ratio

Under SEC rules, we are required to provide the following information regarding the relationship between the annual total compensation of Mr. Thakar, our Chief Executive Officer as of the date we selected to identify the median employee, and the median annual total compensation of our employees (other than Mr. Thakar) for fiscal 2021:

1. The median of the annual total compensation of all employees (other than Mr. Thakar) of the Company (including our consolidated subsidiaries) was $38,519.
2. Mr. Thakar's annual total compensation, as reported in the 2021 Summary Compensation Table included in this proxy statement, was $9,396,664.
3. Based on the above, for 2021, the ratio of Mr. Thakar's annual total compensation to the median of the annual total compensation of all employees other than Mr. Thakar was approximately 244 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of SEC Regulation S-K. We determined the median of the annual total compensation of our employees (other than Mr. Thakar) as of December 31, 2021, at which time we (including our consolidated subsidiaries) had 1,823 full-time, part-time, and temporary employees, 447 of whom are U.S. employees, and 1,376 (or approximately 75% of our total employee population) of whom are located outside of the United States (6 in Australia, 3 in Brazil, 11 in Canada, 1 in Colombia, 1 in the Czech Republic, 35 in France, 12 in Germany, 4 in Hong Kong, 1,217 in India, 9 in Italy, 3 in Japan, 2 in Mexico, 9 in the Netherlands, 2 in the Philippines, 5 in Poland, 3 in Russia, 6 in Singapore, 2 in South Africa, 6 in Spain, 1 Saudi Arabia, 8 in the United Arab Emirates, and 30 in the United Kingdom).

In accordance with the permitted methodology for determining the "median employee", we re-identified the "median employee" for the 2021 fiscal year due to the change in employee population. We excluded all non-U.S. employees (other than those located in France, Germany, India, and the United Kingdom) from our calculations under the de minimis exclusion to the extent the aggregate did not exceed 5% of our total employee population. We then compared the base salaries paid, bonuses earned, and equity awards granted to our 1,741 employees in the U.S., France, Germany, India, and the United Kingdom (which consisted of 447 U.S. employees and 1,294 non-U.S. employees) in 2021 to determine the median employee. Once we identified our median employee, we calculated the employee's annual total compensation as though the median employee was reported in the 2021 Summary Compensation Table in accordance with the requirements of Item 402(c)(2)(x) of SEC

Regulation S-K, yielding the median annual total compensation disclosed above. With respect to the annual total compensation of Mr. Thakar, we used the amount reported in the “Total” column in the 2021 Summary Compensation Table included in this proxy statement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock at April 11, 2022 for:

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

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

Applicable percentage ownership is based on 38,860,012 shares of common stock outstanding at April 11, 2022. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares of common stock subject to options held by the person that are currently exercisable or exercisable within 60 days of April 11, 2022. However, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

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

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned
Named Executive Officers:		
Sumedh S. Thakar (1)	363,564	*
Philippe F. Courtot	—	—
Joo Mi Kim (2)	17,067	*
Allan Peters (3)	7,304	—
Bruce K. Posey (4)	61,970	*
Non-Employee Directors:		
Sandra E. Bergeron (5)	26,348	*
William Berutti	—	—
Jeffrey P. Hank (6)	23,504	*
Gen. Peter Pace (7)	13,862	*
Wendy M. Pfeiffer (8)	7,059	*
Kristi M. Rogers (9)	26,848	*
John Zangardi (10)	3,293	*
All current directors and executive officers as a group (11 persons) (11)	550,819	1.4%
5% Stockholders:		
BlackRock, Inc. (12)	3,988,849	10.3%
Philippe Courtot Family Trust (13)	3,539,054	9.1%
The Vanguard Group (14)	3,379,253	8.7%
Neuberger Berman Group LLC (15)	2,245,048	5.8%

* Represents beneficial ownership of less than 1%.

(1) Consists of (i) 31,994 shares of common stock held by Mr. Thakar, (ii) 17,459 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022, and (iii) 314,111 shares of common stock subject to stock options exercisable within 60 days of April 11, 2022.

(2) Consists of (i) 14,365 shares of common stock held by Ms. Kim and (ii) 2,702 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(3) Consists of 7,304 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(4) Consists of (i) 10,454 shares of common stock held by Mr. Posey, (ii) 6,972 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022, and (iii) 44,544 shares of common stock subject to stock options exercisable within 60 days of April 11, 2022.

(5) Consists of (i) 24,346 shares of common stock held by Ms. Bergeron and (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(6) Consists of (i) 9,502 shares of common stock held by Mr. Hank, (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022, and (iii) 12,000 shares of common stock subject to stock options exercisable within 60 days of April 11, 2022.

(7) Consists of (i) 11,860 shares of common stock held by Gen. Pace and (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(8) Consists of (i) 5,057 shares of common stock held by Ms. Pfeiffer and (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(9) Consists of (i) 1,846 shares of common stock held by Ms. Rogers, (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022, and (iii) 23,000 shares of common stock subject to stock options exercisable within 60 days of April 11, 2022.

(10) Consists of (i) 1,291 shares of common stock held by Dr. Zangardi and (ii) 2,002 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022.

(11) Includes (i) 46,449 shares of common stock issuable upon vesting of RSUs within 60 days of April 11, 2022, and (ii) 393,655 shares of common stock subject to stock options exercisable within 60 days of April 11, 2022.

(12) According to the information reported by BlackRock, Inc. ("BlackRock") on a Schedule 13G/A filed on January 28, 2022, BlackRock beneficially owns an aggregate of 3,988,849 shares of common stock, which consists of (i) 3,944,053 shares as to which it has sole voting power and (ii) 3,988,849 shares as to which it has sole dispositive power. The principal address of BlackRock is 55 East 52nd Street, New York, NY 10055.

(13) According to the information reported by the Philippe Courtot Family Trust ("PCFT") on a Schedule 13G filed on February 8, 2022, PCFT beneficially owns an aggregate of 3,539,054 shares of common stock and has sole voting and dispositive power over such shares. The principal address of PCFT is 1409 Montgomery St., San Francisco, CA 94133.

(14) According to the information reported by The Vanguard Group ("Vanguard") on a Schedule 13G/A filed on February 10, 2022, Vanguard beneficially owns an aggregate of 3,379,253 shares of common stock, which consists of (i) 65,281 shares as to which it has shared voting power, (ii) 3,285,083 shares as to which it has sole dispositive power, and (iii) 94,170 shares as to which it has shared dispositive power. The principal address of Vanguard is 100 Vanguard Blvd., Malvern, PA 19355.

(15) According to the information reported by Neuberger Berman Group LLC ("Neuberger") on a Schedule 13G/A filed on February 14, 2022, Neuberger beneficially owns an aggregate of 2,245,048 shares of common stock, which consists of (i) 2,222,481 shares as to which it has shared voting power and (ii) 2,245,048 shares as to which it has shared dispositive power. The principal address of Neuberger is 1290 Avenue of the Americas, New York, NY 10104.

RELATED PERSON TRANSACTIONS

We describe below transactions and series of similar transactions, since January 1, 2021, to which we were a party or will be a party, in which:

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

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

Certain Family Relationships

In 2021, Nicolas Courtot, son of Philippe Courtot, our former Chief Executive Officer, was employed by us as VP, Brand & Creative until August 30, 2021. During 2021, Nicolas Courtot earned total compensation of $269,620, consisting of base salary, bonus and equity compensation. In addition, Nicolas Courtot participated in our employee benefit plans and arrangements which are generally made available to other employees at his level, including employee equity incentive and benefit plans, including health, vacation, Section 401(k) retirement savings plans and insurance plans. The compensation of Nicolas Courtot was established in accordance with our employment and compensation practices applicable to employees with equivalent qualifications, experience and responsibilities.

The agreements and transactions described under this section were reviewed and approved or ratified by our Audit and Risk Committee in accordance with our related party transaction policy described below.

Policies and Procedures for Related Party Transactions

Our Audit and Risk Committee has the primary responsibility for reviewing and approving or ratifying transactions with related parties.

We have a formal written policy providing that our executive officers, directors, nominees for election as directors, any person or entity known to be the beneficial owner of more than 5% of any class of our voting securities, any immediate family member of any of the foregoing persons, and any firm, corporation, or other entity in which any of the foregoing persons is employed, is a general partner or principal or in a similar position, or in which such person has a 5% or greater beneficial ownership interest (each, a “Related Party”), are/is not permitted to enter into a “Related Party Transaction” with us without the consent of our Audit and Risk Committee. For the purposes of this policy, a “Related Party Transaction” is a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which the Company (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds $120,000, and in which any Related Party had, has or will have a direct or indirect material interest (including any transactions requiring disclosure under Item 404 of Regulation S-K promulgated under the Exchange Act), other than transactions available to all U.S. employees of the Company.

In determining whether to approve a Related Party Transaction, our Audit and Risk Committee is to consider the relevant facts and circumstances available and deemed relevant to the committee, including, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances, and the extent of the Related Party’s interest in the transaction.

OTHER MATTERS

Delinquent Section 16(a) Reports

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

SEC regulations require us to identify in this proxy statement anyone who filed a required report late during the most recent year. Based on our review of forms we received, or written representations from reporting persons stating that they were not required to file these forms, we believe that during 2021, all Section 16(a) filing requirements were satisfied on a timely basis, except (i) on July 7, 2021, each of Joo Mi Kim and Saikat Paul filed a late Form to report the withholding of shares to cover taxes in connection with the vesting of RSUs that occurred on July 1, 2021, (ii) on August 20, 2021, the Philippe Courtot Family Trust filed a late Form 3, and (iii) on September 29, 2021, the Philippe Courtot Family Trust filed a late Form 4 to report one transaction that occurred on September 24, 2021.

2021 Annual Report and SEC Filings

Our financial statements for the fiscal year ended December 31, 2021 are included in our annual report on Form 10-K, which we will make available to stockholders at the same time as this proxy statement. Our annual report and this proxy statement are posted on our website at www.qualys.com and are available from the SEC at its website at www.sec.gov. You may also obtain a copy of our annual report without charge by sending a written request to Investor Relations, Qualys, Inc., 919 East Hillsdale Boulevard, 4th Floor, Foster City, California 94404.

* * *

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

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

THE BOARD OF DIRECTORS

Foster City, California
April 21, 2022

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APPENDIX A

QUALYS, INC.
2012 EQUITY INCENTIVE PLAN

(as amended restated and extended at the 2022 Annual General Meeting)

1. Purposes of the Plan. The purposes of this Plan are:

- to attract and retain the best available personnel for positions of substantial responsibility,
- to provide additional incentive to Employees, Directors and Consultants, and
- to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

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

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection, the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(h) "Committee" means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Qualys, Inc., a Delaware corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) "Effective Date" means the date of the 2022 Annual General Meeting of the Company's stockholders.

(o) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(q) "Exchange Program" means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for 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 Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(r) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(s) "Fiscal Year" means the fiscal year of the Company.

(t) "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.

(u) "Inside Director" means a Director who is an Employee.

(v) "Nonstatutory Stock Option" means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(w) "Officer" means 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.

(x) "Option" means a stock option granted pursuant to the Plan.

(y) "Outside Director" means a Director who is not an Employee.

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

(aa) "Participant" means the holder of an outstanding Award.

(bb) "Performance Share" means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.

(cc) "Performance Unit" means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.

(dd) "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.

(ee) "Plan" means this 2012 Equity Incentive Plan, as amended and restated.

(ff) "Restricted Stock" means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.

(gg) "Restricted Stock Unit" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(hh) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ii) "Section 16(b)" means Section 16(b) of the Exchange Act.

(jj) "Service Provider" means an Employee, Director or Consultant.

(kk) "Share" means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ll) "Stock Appreciation Right" means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

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

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, as of the Effective Date, the maximum aggregate number of Shares that may be issued under the new Plan amended and restated at the 2022 Annual General Meeting is (i) 3,300,000 Shares, plus (ii) any Shares subject to Awards under the previous version of this Plan that had been in place prior to the

Effective Date (the "Existing Plan") that, on or after the date the Effective Date, expire or otherwise terminate without having been exercised in full, or that are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan as a result of clause (ii) equal to 2,712,691, minus (iii) any Shares subject to Awards granted under the Existing Plan after March 31, 2022, but before the Effective Date. For clarity, Shares used to pay the exercise price of an award granted under the Existing Plan or to satisfy the tax withholding obligations related to an award granted under the Existing Plan will not be added to the Plan pursuant to clause (ii) of the previous sentence. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) [REDACTED].

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, all Shares granted (i.e., the gross Shares granted) pursuant to a Stock Appreciation Right will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(viii) to modify or amend each Award (subject to Sections 5 and 18 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(b) of the Plan regarding Incentive Stock Options);

(ix) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;

(x) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xi) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility & Limitations.

(a) Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

(b) Limitations.

(i) Outside Director Limitations. No Outside Director may, in any Fiscal Year, be paid cash compensation and granted Awards with an aggregate value (determined under GAAP with respect to Awards) greater than $1,000,000, except that such limit will be increased to $2,000,000 in the Fiscal Year of his or her initial service as an Outside Director. Any cash compensation paid or Awards granted to an individual for his or her services as an Employee, or for his or her services as a Consultant (other than as an Outside Director), will not count for purpose of this limitation.

(ii) Dividends and Other Distributions. No dividends or other distributions shall be paid with respect to any Shares underlying any unvested portion of an Award.

(iii) Change in Control. Notwithstanding Sections 4 and/or 13(c), the Administrator may not exercise discretion in a Change in Control to accelerate the vesting of Awards. For clarity, the exercise discretion does not include automatic acceleration for Awards not assumed in Section 13(c), Outside Director Awards set forth in Section 13(d) and any accelerated vesting terms set forth in an Award Agreement, a contract or a policy.

(iv) No Exchange Programs. The Administrator may not implement an Exchange Program.

(v) No Section 4999 Excise Tax Gross-Up. The Administrator may not provide for any tax gross up payment to any Participant, or otherwise provide any Participant with a right to indemnification or reimbursement, for any excise tax imposed by Section 4999 of the Code or any similar law.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars ($100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (6) by net exercise; (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (8) any combination of the foregoing methods of payment.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (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 will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(b) relating to the maximum term and Section 6(d) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/ Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed three (3) months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then six (6) months following the first (1st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock

Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

14. Tax.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any tax withholding obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) Compliance With Code Section 409A. Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon the Effective Date. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 18 of the Plan.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company will obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained.

21. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

22. Forfeiture Events.

(a) All Awards under the Plan will be subject to recoupment under the Company's current Clawback Policy and any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other Applicable Laws. In addition, the Administrator may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Administrator determines necessary or appropriate, including but not limited to a reacquisition right regarding previously acquired Shares or other cash or property. Unless this Section 22(a) is specifically mentioned and waived in an Award Agreement or other document, no recovery of compensation under a clawback policy or otherwise will be an event that triggers or contributes to any right of a Participant to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company or a Subsidiary, or Parent of the Company.

(b) The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award will be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but will not be limited to, termination of such Participant's status as Service Provider for cause or any specified action or inaction by a Participant, whether before or after such termination of service, that would constitute cause for termination of such Participant's status as a Service Provider.

APPENDIX B

Reconciliation of Non-GAAP Financial Measures

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

The non-GAAP measures presented in this proxy statement include non-GAAP earnings per share ("EPS"), Adjusted EBITDA, and free cash flow per share. Our calculation of these non-GAAP measures may not be comparable with similarly titled measures of other companies due to potential differences between companies in the method of calculation. As a result, the use of these non-GAAP measures has limitations and should not be considered superior to, in isolation from, or as a substitute for related GAAP measures. See our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and our subsequent filings with the SEC for additional information about the non-GAAP measures presented herein, including a description of the use of such measures.

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

	Twelve Months Ended December 31,	
	2021	2020
GAAP Net income	$ 70,960	$ 91,572
Plus: Stock-based compensation	67,579	40,035
Plus: Amortization of intangible assets	6,661	6,289
Less: Tax adjustment	(15,927)	(20,937)
Non-GAAP Net income	$129,273	$116,959
Non-GAAP Net income per share:		
Basic	$ 3.31	$ 2.99
Diluted	$ 3.22	$ 2.87
Weighted average shares used in non-GAAP net income per share:		
Basic	39,030	39,167
Diluted	40,118	40,740

Proxy Statement

ADJUSTED EBITDA
(Unaudited)
(in thousands)

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
Net income	$ 70,960	$ 91,572
Depreciation and amortization of property and equipment	29,236	26,556
Amortization of intangible assets	6,661	6,289
Provision for income taxes	18,437	10,465
Stock-based compensation	67,579	40,035
Other income, net	(1,714)	(5,383)
Adjusted EBITDA	$191,159	$169,534

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

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020
GAAP Cash flows provided by operating activities	$200,616	$180,086
Less: Purchases of property and equipment, net of proceeds from disposal	(24,418)	(29,618)
Less: Principal payments under capital lease obligations	(90)	(114)
Non-GAAP Free cash flows	$176,108	$150,354
Free cash flow per share	$ 4.39	$ 3.69
Weighted average shares used in computing free cash flow per share:		
Diluted	40,118	40,740

Qualys, Inc.

2021 Annual Report

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Annual Period Ended December 31, 2021

or

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

Commission file number 001-35662

QUALYS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of June 30, 2021, the aggregate market value of voting shares of common stock held by non-affiliates of the registrant was $2,961 million based on the last reported sale price of the registrant's common stock on June 30, 2021. Shares of common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 16, 2022 was 39,029,415 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2022 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2021.

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Qualys, Inc.

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RISK FACTOR SUMMARY

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

- The continued spread of Coronavirus Disease 2019 (COVID-19), or any similar widespread infectious disease outbreak, could harm our business, financial condition and results of operations.
- Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.
- If we do not successfully anticipate market needs and opportunities or are unable to enhance our solutions and develop new solutions that meet those needs and opportunities on a timely or cost-effective basis, we may not be able to compete effectively and our business and financial condition may be harmed.
- If we fail to continue to effectively scale and adapt our platform to meet the performance and other requirements of our customers, our operating results and our business would be harmed.
- If we are unable to renew existing subscriptions for our IT, security and compliance solutions, sell additional subscriptions for our solutions and attract new customers, our operating results would be harmed.
- If the market for cloud solutions for IT, security and compliance does not evolve as we anticipate, our revenues may not grow and our operating results would be harmed.
- Our current research and development efforts may not produce successful products or enhancements to our platform that result in significant revenue, cost savings or other benefits in the near future.
- Our platform, website and internal systems may be subject to intentional disruption or other security incidents that could result in liability and adversely impact our reputation and future sales.
- Our sales cycle can be long and unpredictable, and our sales efforts require considerable time and expense. As a result, revenues may vary from period to period, which may cause our operating results to fluctuate and could harm our business.
- Adverse economic conditions or reduced IT spending may adversely impact our business.
- Our IT, security and compliance solutions are delivered from eleven shared cloud platforms, and any disruption of service at these facilities would interrupt or delay our ability to deliver our solutions to our customers which could reduce our revenues and harm our operating results.
- We face competition in our markets, and we may lack sufficient financial or other resources to maintain or improve our competitive position.
- If our solutions fail to detect vulnerabilities or incorrectly detect vulnerabilities, our brand and reputation could be harmed, which could have an adverse effect on our business and results of operations.

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

NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

PART I

Item 1. Business

Overview

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

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

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

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

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

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

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

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

- *IT Security:* Vulnerability Management (VM), Vulnerability Management, Detection and Response (VMDR), Threat Protection (TP), Continuous Monitoring (CM), Patch Management (PM), Multi-Vector Endpoint Detection and Response (EDR), Certificate Assessment (CRA), SaaS Detection and Response (SaaSDR), Secure Enterprise Mobility (SEM);
- *Compliance:* Policy Compliance (PC), Security Configuration Assessment (SCA), PCI Compliance (PCI), File Integrity Monitoring (FIM), Security Assessment Questionnaire (SAQ), Out of-Band Configuration Assessment (OCA);
- *Web Application Security:* Web Application Scanning (WAS), Web Application Firewall (WAF);
- *Asset Management:* Global Asset View (GAV), Cybersecurity Asset Management (CSAM), Certificate Inventory (CRI); and
- *Cloud/Container Security:* Cloud Inventory (CI), Cloud Security Assessment (CSA), Container Security (CS).

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

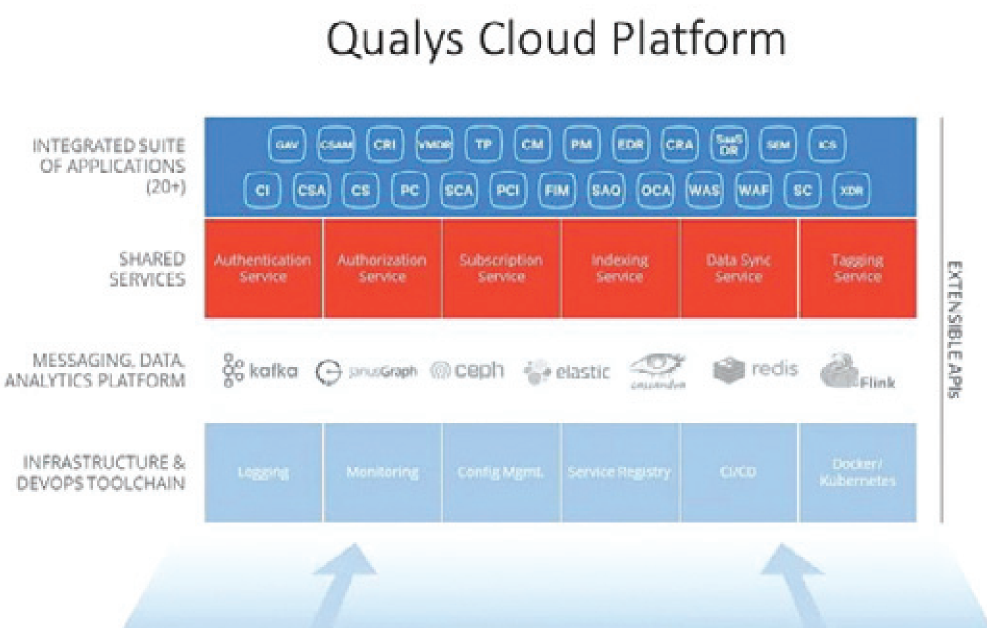
Our Qualys Cloud Platform is currently used by over 10,000 customers worldwide, including a majority of each of the Forbes Global 100 and Fortune 100. Our revenues increased to $411.2 million in 2021 from $363.0 million in 2020 and $321.6 million in 2019.

Our Platform

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

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

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



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

Qualys Core Services

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

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

Our core services include:

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

Qualys Cloud Apps

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

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

From inception through December 31, 2020, we have added the following Cloud Apps: VM, PC, PCI, WAS, WAF, CM, SAQ, TP, FIM, GAV (including a free version), SCA, CS, CI, CSA, CRI, CRA, OCA, PM, VMDR, and EDR. In 2021, we introduced SaaSDR, SEM, and CSAM.

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

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

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

IT Security

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

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

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

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

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

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

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

SaaS Detection and Response (SaaSDR): SaaSDR leverages the Qualys Cloud platform to provide continuous visibility into SaaS applications such as Office 365, Salesforce and Zoom for configuration posture management, activity monitoring and data security insights.

Secure Enterprise Mobility (SEM): SEM extends the power of VMDR for in-depth inventory of mobile devices and their data, real time vulnerability and misconfiguration detection, and built-in remediation with patch orchestration for all Android and iOS/iPadOS devices across the enterprise.

Compliance

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

Security Configuration Assessment (SCA): SCA provides automatic assessment of IT assets' configurations using the latest Center for Internet Security (CIS) Benchmarks for operating systems, databases, applications and network devices. SCA provides intuitive workflows for assessing, monitoring, reporting and remediating security-related configuration issues. SCA's CIS assessments are provided via a web-based user interface and delivered from the Qualys Cloud Platform, enabling centralized management with minimal deployment overhead. SCA users can automatically create downloadable reports and view dashboards.

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

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

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

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

Web Application Security

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

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

Asset Management

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

Cybersecurity Asset Management (CSAM): CSAM is an all-in-one solution that leverages the power of the Qualys Cloud Platform with its multiple native sensors and CMDB synchronization to continuously inventory known and unknown assets, discover installed applications, and overlay business and risk context to establish asset criticality. It identifies unauthorized or end-of-life and end-of-service software and the absence of required security tools, and assesses the health of the attack surface. Further, CSAM enables response options with threat alerts and software removal and delivers regulatory reporting in support of FedRAMP, PCI-DSS and other mandates.

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

Cloud / Container Security

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

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

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

Free Services

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

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

Our Growth Strategy

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

- ***Continue to innovate and enhance our cloud platform and suite of solutions.*** We intend to continue to make significant investments in research and development to extend our cloud platform’s functionality by developing new security solutions and capabilities and further enhancing our existing suite of solutions. From inception through December 31, 2020, we have added the following Cloud Apps: PC, PCI, WAS, WAF, CM, SAQ, TP, FIM, GAV (including a free version), SCA, CS, CI, CSA, CRI, CRA, OCA, PM, VMDR, and EDR. In 2021, we introduced SaaSDR, SEM, and CSAM.
- ***Expand the use of our suite of solutions by our large and diverse customer base.*** With more than 10,000 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. Because our customers typically initially deploy one or two of our solutions in select parts of their IT infrastructures, our existing customers serve as a strong source of new sales as they expand their scope and increase their subscriptions or choose to adopt additional solutions from our integrated suite of IT, security and compliance offerings. In this regard, we continue to expand our sales execution and marketing functions to increase adoption of our newly developed solutions among our existing customers.

- ***Drive new customer growth and broaden our global reach.*** We are pursuing new customers by targeting key accounts, releasing free IT, security and compliance services and expanding both our sales and marketing organization and network of channel partners. We will continue to seek to make significant investments to encourage organizations to replace their existing security products with our cloud solutions. We intend to expand our relationships with key security consulting organizations, managed security service providers and value-added resellers to accelerate the adoption of our cloud platform. We seek to strengthen existing relationships as well as establish new relationships to increase the distribution and market awareness of our cloud platform and target new geographic regions. We also plan to partner with such security providers that can host our private cloud offering within their data centers, helping us expand our reach in new markets and new geographies.
- ***Selectively pursue technology acquisitions to bolster our capabilities and leadership position.*** We may explore acquisitions that are complementary to and can expand the functionality of our cloud platform. We may also seek to acquire development teams to supplement our own personnel and acquire technology to increase the breadth of our cloud-based IT, security and compliance solutions. In 2021, we acquired certain intangible assets of Kandor Soft Labs Private Ltd. (TotalCloud), strengthening our cloud security solution by allowing customers to build user-defined workflows for custom policies and execute them on-demand for simplified security and compliance. In 2020, we acquired certain intangible assets of Spell Security Private Limited (Spell Security), expanding our endpoint behavior detection, threat hunting, malware research and multi-layered response capabilities for our EDR application. In 2019, we acquired Adya Inc. (Adya), enabling us to provide companies of all sizes with the ability to consolidate administration of their Software as a Service (SaaS) applications into one console, manage license costs across SaaS applications, set and enforce security policies in one place and report and audit on all activity with a single tool.

Our Customers

We market and sell our solutions to enterprises, government entities and small and medium-sized businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. As of December 31, 2021, we had over 10,000 customers worldwide, including a majority of each of the Forbes Global 100 and Fortune 100. In each of 2021, 2020 and 2019, no one customer accounted for more than 10% of our revenues. In 2021, 2020 and 2019, 61%, 63% and 64%, respectively, of our revenues were derived from customers in the United States based on our customers' billing addresses. We sell our solutions to enterprises and government entities primarily through our field sales force and to small and medium-sized businesses through our inside sales force. We generate a significant portion of sales through our channel partners, including managed security service providers, value-added resellers and consulting firms in the United States and internationally.

Sales and Marketing

Sales

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

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

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

For sales involving a channel partner, the channel partner engages with the prospective customer directly and involves our sales team as needed to assist in developing and closing an order. When a channel partner secures a sale, we sell the associated subscription to the channel partner who in turn resells the subscription to the customer, with the channel partner earning a fee based on the total value of the order. Once the order is completed, we provide these customers with direct access to our solutions and other associated back-office applications, enabling us to establish a direct relationship as part of ensuring customer satisfaction with our solutions. At the end of the subscription term, the channel partner engages with the customer to execute a renewal order, with our sales team providing assistance as required. In 2021, 2020 and 2019, 41%, 42% and 42%, respectively, of our revenues were generated by channel partners.

Marketing

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

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

Customer Support

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

Research and Development and Operations

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

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

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

Manufacturing Agreement

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

Shared Cloud Platform Agreements

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

Competition

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

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

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

Intellectual Property

We rely on a combination of trade secrets, copyrights, patents and trademarks, as well as contractual protections, to establish and protect our intellectual property rights and protect our proprietary technology. As of December 31, 2021, we have twenty-six issued patents, which expire from 2029 to 2039, several pending U.S. patent applications and an exclusive license to four U.S. patents. The inbound license remains in effect until the licensed patents are no longer enforceable, unless the applicable license agreement is first terminated by us or terminated by the licensor for a breach of the agreement or if we undergo certain bankruptcy events. The licenses are currently exclusive and will remain exclusive so long as we make an appropriately-timed written election and pay an annual fixed royalty for ten years thereafter. These exclusive licenses are subject to the licensor’s reservation of certain rights in the patents and subject to the U.S. government’s reserved rights in the technology. We have a number of registered and unregistered trademarks. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. We view our trade secrets and know-how as a significant component of our intellectual property assets, as we have spent years designing and developing the Qualys Cloud Platform, which we believe differentiates us from our competitors.

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

Human Capital Resources

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

As of December 31, 2021, we had 1,823 full-time employees, including 941 in research and development, 308 in sales and marketing, 402 in operations and customer support, and 172 in general and administrative. As of December 31, 2021, approximately 75% of our employees were located outside of the United States, with 67% of our employees located in Pune, India. None of our U.S. employees are covered by collective bargaining agreements. Employees in certain European countries and Brazil have collective bargaining arrangements at the national level. We believe our employee relations are good, and we have not experienced any work stoppages.

Diversity and Inclusion

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

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

Health and Safety

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

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

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

Compensation and Benefits

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

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

Training and Development

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

Available Information

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

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

Item 1A. Risk Factors

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

Risks Related to Our Business and Industry

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

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

The ultimate extent of the impact of COVID-19 on our business, financial position, results of operations and cash flows will depend on future developments, which are highly uncertain and cannot be predicted at this time, including but not limited to, the duration of the pandemic, its severity, the actions to contain the virus or treat its impact, future spikes of COVID-19 infections resulting in additional preventative measures to contain or mitigate the spread of the virus, the effectiveness, distribution and acceptance of COVID-19 vaccines, including the vaccines' efficacy against emerging COVID-19 variants, and how quickly and to what extent normal economic and operating conditions can resume. These impacts, individually or in the aggregate, could have a material and adverse effect on our business, financial position, results of operations and cash flows. Such effect may be exacerbated in the event the pandemic and the measures taken in response to it persist for an extended period of time. Under any of these circumstances, the resumption of normal business operations may be delayed or hampered by lingering effects of COVID-19 on our operations, partners, and customers.

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

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

- the level of demand for our solutions;
- publicity regarding security breaches generally and the level of perceived threats to IT security;

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

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

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

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

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

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

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

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

- easing or changing of external regulations related to IT, security and compliance; and
- reluctance of customers to purchase cloud solutions for IT, security and compliance.

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

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

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

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

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

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

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

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

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

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

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

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

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

We and our service providers face threats from a variety of sources, including attacks on our networks and systems from numerous sources, including traditional "hackers," sophisticated nation-state and nation-state supported actors, other sources of malicious code (such as viruses and worms), ransomware, social engineering, denial of service attacks, and phishing attempts. We and our service providers could be a target of cyber-attacks or other malfeasance designed to impede the performance of our solutions, penetrate our network security or the security of our cloud platform or our internal systems, misappropriate proprietary information and/or cause interruptions to our services. We and our service providers have experienced and may continue to experience security incidents and attacks of varying degrees from time to time. For example, in December 2020, we were notified by a service provider, Accellion, of a zero-day vulnerability affecting an Accellion FTA server that we deployed to transfer information as part of our customer support system. In response to this incident, we engaged third-party forensic experts to investigate and determined that attackers illegally obtained certain information from the Accellion FTA server. We notified affected customers, as we deemed was required or appropriate. We have incurred costs to respond to this incident and may continue to incur costs to support our efforts to enhance our security measures.

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

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

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

The timing of sales of subscriptions for our solutions can be difficult to forecast because of the length and unpredictability of our sales cycle, particularly with large transactions. We sell subscriptions to our IT, security and compliance solutions primarily to IT departments that are managing a growing set of user and compliance demands, which has increased the complexity of customer requirements to be met and confirmed during the sales cycle and prolonged our sales cycle. Further, the length of time that potential customers devote to their testing and evaluation, contract negotiation and budgeting processes varies significantly, which has also made our sales cycle long and unpredictable. The length of the sales cycle for our solutions typically ranges from six to twelve months but can be more than eighteen months. In addition, we might devote substantial time and effort to a particular unsuccessful sales effort, and as a result we could lose other sales opportunities or incur expenses that are not offset by an increase in revenues, which could harm our business.

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

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

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

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

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

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

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

Additionally, our existing shared cloud platform 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 shared cloud platform providers, we may experience costs or downtime in connection with the loss of an existing facility, or the transfer to, or addition of, new facilities.

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

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

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

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

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

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

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

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

Furthermore, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product and services offerings in the markets we address. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. For all of these reasons, we may not be able to compete successfully against our current or future competitors.

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success significantly depends upon establishing and maintaining relationships with a variety of channel partners and we anticipate that we will continue to depend on these partners in order to grow our business. For the years ended December 31, 2021, 2020 and 2019, we derived approximately 41%, 42% and 42%, respectively, of our revenues from sales of subscriptions for our solutions through channel partners, and the percentage of revenues derived from channel partners may increase in future periods. Our agreements with our channel partners are generally non-exclusive and do not prohibit them from working with our competitors or offering competing solutions, and many of our channel partners have more established relationships with our competitors. If our channel partners choose to place greater emphasis on products of their own or those offered by our competitors, do not effectively market and sell our solutions, or fail to meet the needs of our customers, then our ability to grow our business and sell our solutions may be adversely affected. In addition, the loss of one or more of our larger channel partners, who may cease marketing our solutions with limited or no notice, and our possible inability to replace them, could adversely affect our sales. Moreover, our ability to expand our distribution channels depends in part on our ability to educate our channel partners about our solutions, which can be complex. Our failure to recruit additional channel partners, or any reduction or delay in their sales of our solutions or conflicts between channel sales and our direct sales and marketing activities may harm our results of operations. Even if we are successful, these relationships may not result in greater customer usage of our solutions or increased revenues.

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

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

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

- foreign currency exchange fluctuations;
- trade and foreign exchange restrictions;
- economic or political instability in foreign markets, including as a result of increasing tensions between India and China;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;

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

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

In addition, as of December 31, 2021, approximately 75% of our employees were located outside of the United States, with 67% of our employees located in Pune, India. Accordingly, we are exposed to changes in laws governing our employee relationships in various U.S. and foreign jurisdictions, including laws and regulations regarding wage and hour requirements, fair labor standards, employee data privacy, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll and other taxes which may have a direct impact on our operating costs. We may continue to expand our international operations and international sales and marketing activities. Expansion in international markets has required, and will continue to require, significant management attention and resources. We may be unable to scale our infrastructure effectively or as quickly as our competitors in these markets and our revenues may not increase to offset any increased costs and operating expenses, which would cause our results to suffer.

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

Our reporting currency is the U.S. dollar and we generate a majority of our revenues in U.S. dollars. However, for the year ended December 31, 2021, we incurred approximately 28% of our expenses in foreign currencies, primarily Euros, British Pounds, and Indian Rupee, principally with respect to salaries and related personnel expenses associated with our European and Indian operations. Additionally, for the year ended December 31, 2021, approximately 23% of our revenues were generated in foreign currencies. Accordingly, changes in exchange rates may have a material adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in the Euro, British Pound and Indian Rupee. The results of our operations may be adversely affected by foreign exchange fluctuations.

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

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

We have experienced significant growth over the last several years. Our revenues grew from $321.6 million in 2019 to $411.2 million in 2021, and our headcount increased from 1,194 employees at the beginning of 2019 to 1,823 employees as of December 31, 2021. We rely on information technology systems to help manage critical functions such as order processing, revenue recognition and financial forecasts. To manage any future growth effectively we must continue to improve and expand our IT systems, financial infrastructure, and operating and administrative systems and controls, and continue to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner.

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

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

Our future performance depends on the continued services and continuing contributions of our senior management and other key employees, to execute on our business plan and to identify and pursue new opportunities and product innovations. We do not maintain key-man insurance for any member of our senior management team. 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. From time to time, there may be changes in our senior management team resulting from the termination or departure of executives. For example, our former chief executive officer resigned for health reasons in March 2021, and our current chief executive officer was appointed to the role in April 2021. The loss of the services of our senior management 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 within our industry, and we may not be able to compete for such personnel.

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

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

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

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

In order to remain competitive, we have in the past and may in the future seek to acquire additional businesses, products, services or technologies. For example, we acquired Adya on January 10, 2019, certain intellectual property of Spell Security on July 24, 2020, and certain intellectual property of TotalCloud on August 19, 2021. The environment for acquisitions in our industry is very competitive and acquisition candidate purchase prices may exceed what we would prefer to pay. Moreover, achieving the anticipated benefits of future acquisitions will depend in part upon whether we can integrate acquired operations, products and technology in a timely and cost-effective manner, and even if we achieve benefits from acquisitions, such acquisitions may still be viewed negatively by customers, financial markets or investors. The acquisition and integration process is complex, expensive and time-consuming, and may cause an interruption of, or loss of momentum in, product development and sales activities and operations of both companies, as well as divert the attention of management, and we may incur substantial cost and expense. We may issue equity securities which could dilute current stockholders' ownership, incur debt, assume contingent or other liabilities and expend cash in acquisitions, which could negatively impact our financial position, stockholder equity and stock price. We may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful. If we consummate a transaction, we may be unable to integrate and manage acquired products and businesses effectively or retain key personnel. If we are unable to effectively execute acquisitions, our business, financial condition and operating results could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The privacy, data protection, and information security laws and regulations we must comply with also are subject to change. For example, the United Kingdom enacted a Data Protection Act in May 2018 that substantially implements the GDPR, but the United Kingdom’s exit from the European Union, commonly referred to as “Brexit,” could lead to further legislative and regulatory changes. It remains unclear how United Kingdom data protection laws or regulations will develop in the medium to longer term and how data transfers to and from the United Kingdom will be regulated. Additionally, we have joined the EU-U.S. Privacy Shield Framework and a related program, the Swiss-U.S. Privacy Shield Framework and make use of certain standard contractual clauses (the “SCCs”) approved by the European Commission, with regard to certain transfers of personal data from the European Economic Area (“EEA”) to the U.S. Both the EU-U.S. Privacy Shield Framework and SCCs have been subject to legal challenge. We continue to analyze the July 2020 “Schrems II” decision by the Court of Justice of the European Union (“CJEU”) and its impact on our data transfer mechanisms as well as subsequent guidance from data privacy regulators and new SCCs published by the European Commission in June 2021, and we may find it necessary or appropriate to take different or additional steps with respect to transfers of personal data, which may result in increased costs of compliance and limitations on our customers and us. We may be unsuccessful in maintaining legitimate means for our transfer and receipt of personal data from the EEA or Switzerland. We may experience reluctance or refusal by current or prospective European customers to use our products, and we and our customers may face a risk of enforcement actions by data protection authorities in the EEA relating to personal data transfers to us and by us from the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition. Some countries also are considering or have passed legislation requiring local storage and processing of data, or similar requirements, which could increase the cost and complexity of delivering our services.

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore, it is possible that our patent applications may not result in granted patents, that the scope of our issued patents will be limited or not provide the coverage originally sought, that our issued patents will not provide us with any competitive advantages, or that our patents and other intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. In addition, issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. As a result, we may not be able to obtain adequate patent protection or to enforce our issued patents effectively.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results and financial condition. If we are unable to protect our intellectual property rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative solutions that have enabled us to be successful to date.

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

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

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

An adverse outcome of a dispute may require us to:

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

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

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

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

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

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

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

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses and excess tax benefits arising from stock-based compensation, other tax benefits and credits, and the valuation of deferred tax assets and liabilities. Increases in our effective tax rate could harm our operating results.

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

Risks Related to Ownership of Our Common Stock

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

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

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

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

Our actual operating results may differ significantly from our guidance.

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

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

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

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

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

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, employees and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. As of December 31, 2021, we had 39.1 million shares of our common stock outstanding.

In addition, as of December 31, 2021, there were 0.9 million restricted stock units and stock options to purchase 1.8 million shares of our common stock outstanding. If such stock options are exercised and restricted stock units are released, these additional shares will become available for sale. As of December 31, 2021, we had 8.1 million shares of our common stock reserved for future grants under our 2012 Equity Incentive Plan and 0.6 million shares reserved for future purchases under our 2021 Employee Stock Purchase Plan, which can be freely sold in the public market upon issuance. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock.

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

On February 12, 2018, we announced a $100.0 million stock repurchase program. On each of October 30, 2018, October 30, 2019, May 7, 2020, February 10, 2021, we announced that our board of directors had authorized an increase of $100.0 million, and on November 3, 2021, we announced that our board of directors had authorized an increase of $200.0 million to the share repurchase program, resulting in an aggregate authorization of $700.0 million to date. Although our board of directors authorized this stock repurchase program, we are not obligated to repurchase any specific dollar amount or to acquire any specific number of shares. The stock repurchase program could affect the price of our common stock, increase volatility and diminish our cash reserves. In addition, it may be suspended or terminated at any time, which may result in a decrease in the price of our common stock. During the year ended December 31, 2021, we repurchased 1.1 million shares of our common stock for approximately $130.0 million in total. As of December 31, 2021, approximately $271.8 million remained available for share repurchases pursuant to our share repurchase program.

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

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

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

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

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

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

General Risk Factors

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

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

We may not maintain profitability in the future.

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

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

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

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

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

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

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

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

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

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP. Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Any failure to maintain effective controls, or any difficulties encountered in their improvement, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports we file with the SEC under Section 404 of the Sarbanes-Oxley Act. While we were able to assert in this Annual Report on Form 10-K that our internal control over financial reporting was effective as of December 31, 2021, we cannot predict the outcome of our testing in future periods. If we are unable to assert in any future reporting period that our internal control over financial reporting is effective (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls), investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NASDAQ Stock Market.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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

Item 3. Legal Proceedings

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. As of December 31, 2021, there has not been at least a reasonable possibility that the Company has incurred a material loss from any ongoing legal proceedings, individually or taken together. However, litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company’s control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters which could have a material impact on its results of operations, financial position and cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

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

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

Holders of Record

As of February 14, 2022, there were approximately 58 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information about our equity compensation plans as of December 31, 2021. All outstanding awards relate to our common stock.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)
	(in thousands)		(in thousands)
Equity compensation plans approved by security holders[(1)]	2,755[(2)]	$66.05[(3)]	8,691[(4)]
Equity compensation plans not approved by security holders	—	$ —	—

(1) Includes our 2000 Equity Incentive Plan (2000 Plan), 2012 Equity Incentive Plan (2012 Plan) and 2021 Employee Stock Purchase Plan (2021 ESPP).

(2) Consists of 917 thousand restricted stock units and 1,838 thousand shares underlying stock options.

(3) The weighted average exercise price is calculated based solely on outstanding stock options.

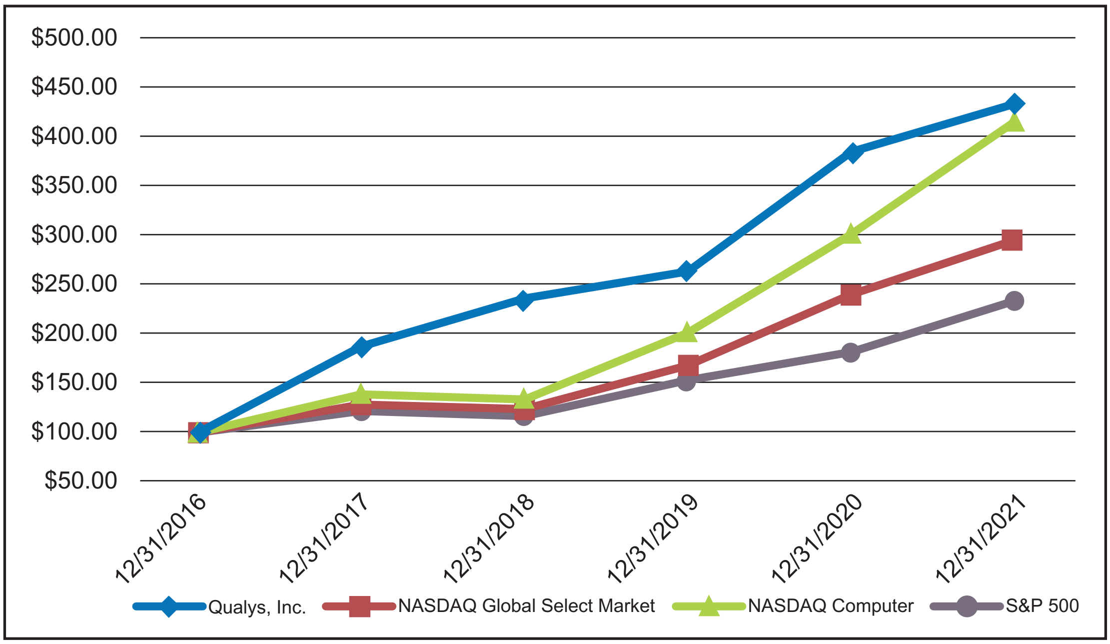
(4) Consists of 8,091 thousand shares reserved for issuance under our 2012 Plan and 600 thousand shares reserved for issuance under our 2021 ESPP. Our 2012 Plan provides that on the first day of each fiscal year, the number of shares authorized for issuance under the 2012 Plan is automatically increased by a number equal to the least of (i) 3,050 thousand shares, (ii) five

percent (5%) of the aggregate number of shares of common stock outstanding on the last day of the immediately preceding fiscal year, or (iii) such number of shares that may be determined by our board of directors.

Stock Price Performance Graph

The following graph shows a comparison from December 31, 2016 through December 31, 2021 of the cumulative total return for an investment of $100 (and the reinvestment of dividends) in our common stock, the NASDAQ Global Select Market Composite Index and the NASDAQ Computer Index and the S&P 500 Index. Such returns are based on historical results and are not intended to suggest future performance.

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



* $100 invested on December 31, 2016 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	December 31, 2016	December 31, 2017	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Qualys, Inc.	$100.00	$187.52	$236.15	$263.41	$385.06	$433.55
NASDAQ Global Select Market	$100.00	$128.43	$123.71	$167.75	$239.95	$295.43
NASDAQ Computer	$100.00	$138.77	$133.66	$200.94	$301.37	$415.46
S&P 500	$100.00	$121.83	$116.49	$153.17	$181.35	$233.41

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

A summary of our repurchases of common stock during the three months ended December 31, 2021 is as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plan or Program
October 1, 2021—October 31, 2021	84,500	$114.34	84,500	$ 97,221,477
November 1, 2021—November 30, 2021	95,141	$134.90	95,141	$284,387,135
December 1, 2021—December 31, 2021	93,100	$134.93	93,100	$271,824,993
Total	272,741		272,741	

(1) On February 5, 2018, our board of directors authorized a $100.0 million two-year share repurchase program, which was announced on February 12, 2018. On each of October 30, 2018, October 30, 2019, May 7, 2020 and February 10, 2021, we announced that our board of directors had authorized an increase of $100.0 million, and on November 3, 2021, we announced that our board of directors had authorized an increase of $200.0 million to the share repurchase program, resulting in an aggregate authorization of $700.0 million to date. Shares may be repurchased from time to time on the open market in accordance with Rule 10b-18 of the Exchange Act of 1934. We have entered into a pre-set trading plan adopted in accordance with Rule 10b5-1 under the Exchange Act to effect repurchases under our share repurchase program. All share repurchases have been made using cash resources. Our share repurchase program does not have an expiration date.

Item 6. [RESERVED]

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

You should read the following discussion in conjunction with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. You should carefully review and consider the information regarding our financial condition and results of operations set forth under Part I-Item 7 (Management’s Discussion and Analysis of Financial Condition and Results of Operations) in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 22, 2021, for an understanding of our results of operations and liquidity discussions and analysis comparing fiscal year 2020 to fiscal year 2019. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from our expectations, as discussed in “Forward-Looking Statements” in Part I of this Annual Report on Form 10-K. Factors that could cause such differences include, but are not limited to, those described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

Overview

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

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

- *IT Security:* Vulnerability Management (VM), Vulnerability Management, Detection and Response (VMDR), Threat Protection (TP), Continuous Monitoring (CM), Patch Management (PM), Multi-Vector Endpoint Detection and Response (EDR), Certificate Assessment (CRA), SaaS Detection and Response (SaaSDR), Secure Enterprise Mobility (SEM);
- *Compliance:* Policy Compliance (PC), Security Configuration Assessment (SCA), PCI Compliance (PCI), File Integrity Monitoring (FIM), Security Assessment Questionnaire (SAQ), Out of-Band Configuration Assessment (OCA);
- *Web Application Security:* Web Application Scanning (WAS), Web Application Firewall (WAF);
- *Asset Management:* Global Asset View (GAV), Cybersecurity Asset Management (CSAM), Certificate Inventory (CRI); and
- *Cloud/Container Security:* Cloud Inventory (CI), Cloud Security Assessment (CSA), Container Security (CS).

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

We market and sell our solutions to enterprises, government entities and small and medium-sized businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. In 2021, 2020 and 2019, 61%, 63% and 64%, respectively, of our revenues were derived from customers in the United States based on our customers' billing addresses. We sell our solutions to enterprises and government entities primarily through our field sales force and to small and medium-sized businesses through our inside sales force. We generate a significant portion of sales through our channel partners, including managed security service providers, value-added resellers and consulting firms in the United States and internationally.

Impacts of COVID-19

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

Key Components of Results of Operations

Revenues

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

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

Cost of Revenues

Cost of revenues consists primarily of personnel expenses, comprised of salaries, benefits, 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, physical scanner appliances and computer hardware provided to certain customers as part of their subscriptions, expenses related to the use of third-party data centers and cloud infrastructures, amortization of software and license fees, amortization of intangibles related to acquisitions, maintenance support, fees paid to contractors who supplement or support our operations center personnel and overhead allocations. We expect to continue to make capital investments to expand and support our data center and cloud infrastructure operations, which will increase the cost of revenues in absolute dollars.

Operating Expenses

Research and Development

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

Sales and Marketing

Sales and marketing expenses consist primarily of personnel expenses, comprised of salaries, benefits, sales commissions, performance-based compensation and stock-based compensation for our worldwide sales and marketing teams. Other expenses include marketing and promotional events, lead-generation marketing programs, public relations, travel, software licenses and overhead allocations. Sales commissions related to new business and upsells are capitalized as an asset. We amortize the capitalized commission cost as a selling expense on a straight-line basis over a period of five years. We expense sales commissions related to contract renewals as incurred. Our new sales personnel are typically not immediately productive, and the resulting increase in sales and marketing expenses we incur when we add new personnel may not result in increased revenues if these new sales personnel fail to become productive. The timing of our hiring of sales personnel, or the participation in new marketing events or programs, and the rate at which these generate incremental revenues, may affect our future operating results. We expect to continue to significantly invest in additional sales personnel worldwide and also in more marketing programs to support new solutions on our platform, which will increase sales and marketing expenses in absolute dollars.

General and Administrative

General and administrative expenses consist primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation for our executive, finance and accounting, IT, legal and human resources teams, as well as professional services, fees, software licenses and overhead allocations. We expect that general and administrative expenses will increase in absolute dollars, as we continue to add personnel and incur professional services to support our growth and compliance with legal requirements.

Other Income (Expense), Net

Our other income (expense), net consists primarily of interest and investment income from our short-term and long-term marketable securities and foreign exchange gains and losses, the majority of which result from fluctuations between the U.S. Dollar and the Euro, British Pound (“GBP”) and Indian Rupee (“INR”).

Income Tax Provision

We are subject to federal, state and foreign income taxes for jurisdictions in which we operate, and we use estimates in determining our income tax provision and deferred tax assets. Earnings from our non-U.S. activities are subject to income taxes in the local countries at rates which were generally similar to the U.S. statutory tax rate.

Results of Operations

The following table sets forth selected consolidated statements of operations data for each of the periods presented as a percentage of revenues:

	Year Ended December 31,	
	2021	2020
Revenues	100%	100%
Cost of revenues	22	22
Gross profit	78	78
Operating expenses:		
Research and development	20	20
Sales and marketing	19	19
General and administrative	18	12
Total operating expenses	57	51
Income from operations	21	27
Total other income, net	—	1
Income before income taxes	21	28
Income tax provision	4	3
Net income	17%	25%

Comparison of Years Ended December 31, 2021 and 2020

Revenues

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Revenues	$411,172	$362,963	$48,209	13%

Revenues increased by $48.2 million in 2021 compared to 2020, due to an increase in IT Security, Compliance, Web Application Security, Asset Management and Cloud and Container Security subscriptions. The revenue growth was primarily from an increase in renewal and expansion business in 2021 compared to 2020. Of the total increase of $48.2 million, $20.3 million was from customers in the United States and the remaining $27.9 million was from customers in foreign countries. In 2021, 59% of total revenue was direct and 41% of total revenue was through partners. Of the total increase of $48.2 million, $30.4 million was direct and $17.8 million was from partners. With our strong market position driving further demand for our solutions, we expect revenue growth from new and existing customers to continue.

Cost of Revenues

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Cost of revenues	$89,439	$79,226	$10,213	13%

Cost of revenues increased by $10.2 million in 2021 compared to 2020, due to an increase in personnel costs of $6.3 million driven by additional employees hired to support the growth of our business, an increase in data center and cloud costs of $2.0 million to meet growing demand and an increase in depreciation and amortization expense of $1.5 million as more computer equipment was placed in service.

Research and Development Expenses

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Research and development	$81,289	$72,548	$8,741	12%

Research and development expenses increased by $8.7 million in 2021 compared to 2020, due to an increase in personnel costs of $5.5 million primarily driven by additional employees hired to support the growth of our business, an increase in software costs of $1.0 million, an increase in professional services fees of $0.9 million, an increase in data center and cloud costs of $0.8 million for our ongoing research and development efforts and an increase in depreciation and amortization expense of $0.7 million as more computer equipment was placed in service.

Sales and Marketing Expenses

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Sales and marketing	$76,487	$67,965	$8,522	13%

Sales and marketing expenses increased by $8.5 million in 2021 compared to 2020, due to an increase in commissions of $3.4 million driven by higher revenues, an increase in personnel costs of $2.8 million driven by additional employees hired to support the growth of our business, an increase in travel and trade show related costs of $1.1 million associated with the easing of COVID-19 related travel restrictions and an increase in license and subscription costs of $0.8 million.

General and Administrative Expenses

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
General and administrative	$76,274	$46,570	$29,704	64%

General and administrative expenses increased by $29.7 million in 2021 compared to 2020, due to an increase in stock-based compensation expense of $28.7 million primarily driven by accelerated vesting relating to the resignation of our former chief executive officer and an increase in personnel costs of $1.6 million driven by additional employees hired to support the growth of our business.

Total other income, net

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Total other income, net	$1,714	$5,383	$(3,669)	(68)%

Total other income, net decreased by $3.7 million in 2021 compared to 2020, due to a decrease in interest income of $3.1 million driven by lower yield and an increase in foreign exchange loss of $0.6 million.

Income tax provision

	Year Ended December 31,		Change	
	2021	2020	$	%
	(in thousands, except percentages)			
Income tax provision	$18,437	$10,465	$7,972	76%

Income tax provision increased by $8.0 million in 2021 compared to 2020, due to a reduction in excess tax benefits from stock-based compensation and an increase in income after permanent tax adjustments related to the former CEO's accelerated stock-based compensation.

Key Non-GAAP Metric

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

Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) income tax provision (benefit), (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets, (5) stock-based compensation and (6) non-recurring expenses that do not reflect ongoing costs of operating the business.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation from or as a substitute for the measures presented in accordance with U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;
- Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;
- Adjusted EBITDA excludes depreciation and amortization of property and equipment and amortization of intangible assets, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should be considered alongside other financial performance measures, including revenues, net income, cash flows from operating activities and our financial results presented in accordance with U.S. GAAP.

The following unaudited table presents the reconciliation of net income to Adjusted EBITDA for the years ended December 31, 2021 and 2020.

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	
Net income	$ 70,960	$ 91,572
Depreciation and amortization of property and equipment	29,236	26,556
Amortization of intangible assets	6,661	6,289
Income tax provision	18,437	10,465
Stock-based compensation	67,579	40,035
Total other income, net	(1,714)	(5,383)
Adjusted EBITDA	$191,159	$169,534
Percentage of revenues	46%	47%

Liquidity and Capital Resources

As of December 31, 2021, our principal source of liquidity was cash, cash equivalents and marketable securities of $516.5 million, including $57.0 million of cash held outside of the United States. The following summary of cash flows for the periods indicated has been derived from our consolidated financial statements included elsewhere in this report:

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(in thousands)	
Cash provided by operating activities	$ 200,616	$ 180,086
Cash used in investing activities	(29,532)	(80,932)
Cash used in financing activities	(107,888)	(112,581)
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 63,196	$ (13,427)

Operating Activities

In 2021, we generated $169.6 million of cash from our net income, as adjusted for non-cash items mainly related to stock-based compensation expense, depreciation and amortization expense and deferred taxes, as compared to $169.4 million in 2020. In addition, we also generated $31.0 million of cash from working capital change in 2021, of which $37.4 million was related to net increase in deferred revenue and accounts receivable as a result of our continued growth in billing and collection, partially offset by higher prepaid income taxes of $6.9 million. In 2020, we generated $10.7 million of cash from working capital change, which was also mainly related to deferred revenue and accounts receivable due to continued growth in billing and collection.

Investing Activities

In 2021, we used $4.5 million of cash in marketable securities investment, $24.4 million of cash in capital expenditures mainly related to computer equipment to support our growth and development and $1.1 million of cash to acquire certain technology assets, as compared to $49.8 million of cash used in marketable securities investment, $29.6 million of cash used in capital expenditures and $1.5 million of cash used for acquisition of technology assets in 2020.

Financing Activities

In 2021, we used $130.0 million of cash for share repurchase and $27.8 million of cash in payment of employee withholding taxes upon vesting of restricted stock units and received $50.0 million of proceeds from employee exercise of stock options, as compared to $126.7 million of cash used for share repurchase, $20.2 million of cash used in payment of employee withholding taxes upon vesting of restricted stock units and $34.5 million of cash received from employee exercise of stock options in 2020. Net cash used in financing activities are expected to be higher in 2022 due to expected higher volume of share repurchase and lower cash receipt from stock option exercise, mainly due to the resignation of our former CEO.

We believe our existing cash and cash equivalents, marketable securities and our expected cash flow generated from operations will be sufficient to fund our operations for the next twelve months and beyond. We do not anticipate that we will need funds generated from foreign operations to fund our domestic operations. However, if we repatriate these funds, we could be subject to foreign withholding taxes.

Our material cash requirements mainly include the following contractual and other obligations:

- Our operating lease obligations to make payments under our non-cancelable lease agreements for our facilities and data centers. We had fixed operating lease payment obligations of $54.2 million as of December 31, 2021, with $14.5 million expected to be paid within the next 12 months.
- Cash outflow for capital expenditures in 2022 is expected to be in a range of $25.0 million to $30.0 million. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our sales and marketing activities, the timing, type and extent of our spending on research and development efforts, international expansion and investment in data centers and cloud infrastructures. We may also seek to invest in or acquire complementary businesses or technologies.
- Other non-cancelable purchase obligations related to cloud infrastructures and other service providers totaled $36.4 million, of which $16.4 million is expected to be paid within the next 12 months.

We expect to continue to use cash to repurchase shares in 2022 under our share repurchase program authorized by our board of directors on February 5, 2018. As of December 31, 2021, our board of directors had authorized an aggregate amount of $700.0 million for repurchases under our share repurchase program, of which approximately $271.8 million remained available. Shares will be repurchased from time to time on the open market in accordance with Rule 10b-18 of the Exchange Act of 1934, including pursuant to a pre-set trading plan adopted in accordance with Rule 10b5-1 under the Exchange Act.

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. Our significant accounting policies are described in Note 1—The Company and Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. On an ongoing basis, we evaluate our estimates and assumptions based on historical and anticipated results and trends that we believe represent our best estimate under the circumstances. However, as accounting estimates are subject to inherent uncertainty, our actual results may differ from these estimates under different assumptions or conditions.

Income Taxes

Significant assumptions, judgments and estimates are involved in determining our provision for (benefit from) income taxes, our deferred tax assets and liabilities, and any valuation allowance to be recorded against our deferred tax assets. Our judgments, assumptions and estimates relating to the current provision for income taxes include the geographic mix and amount of income (loss), our interpretation of current tax laws, and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Our judgments also include anticipating the tax positions we will record in the financial statements before preparing and filing the tax returns. Our estimates and assumptions may differ from the actual results as reflected in our income tax returns and we record the required adjustments when they are identified or resolved. Changes in our business and tax laws or our interpretation of those, and developments in current and future tax audits, could significantly impact the amounts provided for income taxes in our results of operations, financial position, or cash flows.

The assessment of tax effects of our uncertain tax positions in our financial statements involves significant judgment in interpreting complex and ambiguous tax laws, regulations, and administrative practices, determining the probability of various possible settlement outcomes, evaluating the litigation process based on tax authority behaviors in similar cases, and estimating the likelihood that another taxing authority could review the respective tax position. These judgments are inherently challenging and subjective because a taxing authority may change its behavior at any time. We must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. We reevaluate our income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax laws, effectively settled issues under audit, the potential for interest and penalties, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision.

Stock-Based Compensation

We recognize the fair value of our employee stock options and restricted stock units, including performance-based restricted stock units, over the requisite service period. The fair value of each stock option is estimated on date of grant using the Black-Scholes-Merton option pricing model. Determining the appropriate fair value model and calculating the fair value of employee stock options requires the use of subjective assumptions, including the expected life of the stock option and stock price volatility. The recognition of expenses for performance based restricted stock units requires us to estimate the probability that the performance condition will be achieved and the number of awards that will vest are adjusted accordingly at each reporting period. The assumptions used in calculating the fair value of employee stock options and estimating the probability of achievement of performance metrics represent management’s best estimates, which require significant judgment and involve inherent uncertainties. While not material to the current year, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We have domestic and international operations and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks, we monitor the financial condition of our large customers and limit credit exposure by collecting subscription fees in advance.

Foreign Currency Risk

Our results of operations and cash flows have been and will continue to be subject to fluctuations because of changes in foreign currency exchange rates, particularly changes in exchange rates between the U.S. Dollar and the Euro, GBP, INR, Canadian Dollar ("C$") and Swiss Franc ("CHF"), the currencies of countries where we currently have our most significant international operations. We enter into foreign currency forward contracts to reduce our exposure to foreign currency exchange rate fluctuations related to forecasted subscription revenue, operating expenses and foreign currency denominated assets or liabilities. As of December 31, 2021, we had designated cash flow hedge forward contracts with notional amounts of €29.8 million, £9.4 million and Rs.2,955.3 million and non-designated forward contracts with notional amounts of €34.5 million, £11.6 million, Rs.74.9 million, C$2.5 million and CHF1.0 million. With our hedging strategy applied, the effect of an immediate 10% adverse change in foreign exchange rates would not be material to our financial condition, operating results or cash flows.

Interest Rate Sensitivity

We had $516.5 million in cash, cash equivalents and short-term and long-term marketable securities as of December 31, 2021. Cash and cash equivalents include cash held in banks, highly liquid money market funds and commercial paper. Marketable securities consist of fixed-income U.S. Treasury and government agency securities, commercial paper corporate bonds, asset-backed securities and foreign government securities. The primary objectives of our investment activities are the preservation of principal and support of our liquidity requirements. We do not invest for trading or speculative purposes. Our marketable securities are subject to market risk due to changes in interest rates, which may affect the interest income we earn and the fair market value. As of December 31, 2021, a hypothetical 100 basis point increase in interest rate would result in a decrease in the fair value of our marketable securities by $2.4 million.

Item 8. Financial Statements and Supplementary Data

Qualys, Inc.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Qualys, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Qualys, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2022 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Income taxes

As described further in Note 12 to the financial statements, the Company records income taxes using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. We identified the tax effects of temporary and permanent differences related to stock-based compensation as a critical audit matter.

The principal considerations for our determination that the tax effects of temporary and permanent differences are a critical audit matter are that auditing the application of executive compensation rules requires significant technical expertise, the Company is generating excess tax deductions as a result of stock-based compensation and the stock-based compensation calculation is complex due to the required recordkeeping. Our audit procedures related to the tax effects of temporary and permanent differences related to stock-based compensation included the following, among others.

- Involved an employee compensation specialist to assess the application of stock-based compensation tax rules.
- Obtained management's permanent and temporary provision calculation and tied out inputs to supporting equity documentation.
- Tested the completeness and accuracy of the calculation of permanent and temporary differences.
- Determined that the ending gross temporary difference agreed to the supporting equity documentation.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2005.

San Jose, California
February 22, 2022

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Qualys, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Qualys, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control — Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated February 22, 2022 expressed an unqualified opinion on those consolidated financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

San Jose, California
February 22, 2022

Qualys, Inc.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$137,328	$ 74,132
Short-term marketable securities	267,960	281,892
Accounts receivable, net of allowance of $793 and $725 as of December 31, 2021 and 2020, respectively	108,998	100,179
Prepaid expenses and other current assets	32,112	19,142
Total current assets	546,398	475,345
Long-term marketable securities	111,198	98,458
Property and equipment, net	61,854	64,850
Operating leases—right of use asset	37,016	44,838
Deferred tax assets, net	25,087	15,811
Intangible assets, net	6,545	12,006
Goodwill	7,447	7,447
Restricted cash	1,200	1,200
Other noncurrent assets	17,814	16,864
Total assets	$814,559	$736,819
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,296	$ 731
Accrued liabilities	32,504	29,833
Deferred revenues, current	257,872	213,494
Operating lease liabilities, current	12,608	11,672
Total current liabilities	304,280	255,730
Deferred revenues, noncurrent	32,753	30,540
Operating lease liabilities, noncurrent	35,914	45,700
Other noncurrent liabilities	4,898	367
Total liabilities	377,845	332,337
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock: $0.001 par value; 20,000 shares authorized, no shares issued and outstanding as of December 31, 2021 and 2020	—	—
Common stock: $0.001 par value; 1,000,000 shares authorized, 39,112 and 39,253 shares issued and outstanding as of December 31, 2021 and 2020, respectively	39	39
Additional paid-in capital	477,323	401,359
Accumulated other comprehensive income (loss)	1,007	(484)
Retained earnings (accumulated deficit)	(41,655)	3,568
Total stockholders' equity	436,714	404,482
Total liabilities and stockholders' equity	$814,559	$736,819

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31, 2021	2020	2019
Revenues	$411,172	$362,963	$321,607
Cost of revenues	89,439	79,226	69,517
Gross profit	321,733	283,737	252,090
Operating expenses:			
Research and development	81,289	72,548	68,239
Sales and marketing	76,487	67,965	70,833
General and administrative	76,274	46,570	40,765
Total operating expenses	234,050	187,083	179,837
Income from operations	87,683	96,654	72,253
Other income (expense), net:			
Interest expense	—	(9)	(106)
Interest income	2,287	5,385	8,443
Other income (expense), net	(573)	7	(607)
Total other income, net	1,714	5,383	7,730
Income before income taxes	89,397	102,037	79,983
Income tax provision	18,437	10,465	10,647
Net income	$ 70,960	$ 91,572	$ 69,336
Net income per share:			
Basic	$ 1.82	$ 2.34	$ 1.77
Diluted	$ 1.77	$ 2.25	$ 1.68
Weighted average shares used in computing net income per share:			
Basic	39,030	39,167	39,075
Diluted	40,118	40,740	41,284

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income	$70,960	$91,572	$69,336
Other comprehensive income (loss), net of tax			
Net change in unrealized gains (losses) on available-for-sale debt securities, net of tax	(1,409)	402	1,367
Net change in unrealized gains (losses) on cash flow hedges, net of tax	2,900	(2,048)	381
Other comprehensive income (loss), net of tax	1,491	(1,646)	1,748
Comprehensive income	$72,451	$89,926	$71,084

The accompanying notes are an integral part of these Consolidated Financial Statements.

Annual Report

Qualys, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2021	2020	2019
Cash flow from operating activities:			
Net income	$ 70,960	$ 91,572	$ 69,336
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	35,897	32,845	31,201
Write off of noncurrent asset	625	—	—
Bad debt expense	402	486	247
Loss on disposal of property and equipment	12	106	202
Stock-based compensation	67,579	40,035	34,892
Amortization of premiums (accretion of discounts) on marketable securities	3,869	826	(1,597)
Deferred income taxes	(9,723)	3,512	7,095
Changes in operating assets and liabilities:			
Accounts receivable	(9,221)	(22,631)	(2,456)
Prepaid expenses and other assets	(15,665)	(2,329)	(6,012)
Accounts payable	(32)	(389)	(1,076)
Accrued liabilities and other noncurrent liabilities	9,322	5,126	715
Deferred revenues	46,591	30,927	28,060
Net cash provided by operating activities	200,616	180,086	160,607
Cash flow from investing activities:			
Purchases of marketable securities	(368,450)	(391,693)	(331,131)
Sales and maturities of marketable securities	363,941	341,879	328,350
Purchases of property and equipment	(24,424)	(30,037)	(27,573)
Proceeds from disposal of property and equipment	6	419	—
Purchases of intangible assets	(1,230)	(1,500)	(4,050)
Maturity (purchase) of note receivable	625	—	(625)
Net cash used in investing activities	(29,532)	(80,932)	(35,029)
Cash flow from financing activities:			
Repurchase of common stock	(129,977)	(126,729)	(86,424)
Proceeds from exercise of stock options	49,994	34,461	24,831
Payments for taxes related to net share settlement of equity awards	(27,815)	(20,199)	(15,743)
Principal payments under finance lease obligations	(90)	(114)	(1,709)
Net cash used in financing activities	(107,888)	(112,581)	(79,045)
Net increase (decrease) in cash, cash equivalents and restricted cash	63,196	(13,427)	46,533
Cash, cash equivalents and restricted cash at beginning of period	75,332	88,759	42,226
Cash, cash equivalents and restricted cash at end of period	$ 138,528	$ 75,332	$ 88,759
Supplemental disclosures of cash flow information			
Cash paid for interest expense	$ —	$ 9	$ 107
Cash paid for income taxes, net of refunds	$ 35,080	$ 8,058	$ 3,031
Non-cash investing and financing activities			
Purchases of intangible assets recorded in accrued liabilities	$ 120	$ 150	$ 150
Purchases of property and equipment recorded in accounts payable and accrued liabilities	$ 2,086	$ 1,054	$ 235

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balances at December 31, 2018	39,015	$ 39	$330,572	$ (586)	$ 27,964	$ 357,989
Net income	—	—	—	—	69,336	69,336
Other comprehensive income, net of tax	—	—	—	1,748	—	1,748
Issuance of common stock upon exercise of stock options	901	1	24,830	—	—	24,831
Repurchase of common stock	(1,026)	(1)	(12,317)	—	(74,106)	(86,424)
Issuance of common stock upon vesting of restricted stock units	439	—	—	—	—	—
Taxes related to net share settlement of equity awards	(183)	—	(15,743)	—	—	(15,743)
Stock-based compensation	—	—	35,066	—	—	35,066
Balances at December 31, 2019	39,146	39	362,408	1,162	23,194	386,803
Net income	—	—	—	—	91,572	91,572
Other comprehensive loss, net of tax	—	—	—	(1,646)	—	(1,646)
Issuance of common stock upon exercise of stock options	1,130	1	34,460	—	—	34,461
Repurchase of common stock	(1,293)	(1)	(15,530)	—	(111,198)	(126,729)
Issuance of common stock upon vesting of restricted stock units	476	—	—	—	—	—
Taxes related to net share settlement of equity awards	(206)	—	(20,199)	—	—	(20,199)
Stock-based compensation	—	—	40,220	—	—	40,220
Balances at December 31, 2020	39,253	39	401,359	(484)	3,568	404,482
Net income	—	—	—	—	70,960	70,960
Other comprehensive income, net of tax	—	—	—	1,491	—	1,491
Issuance of common stock upon exercise of stock options	725	1	49,993	—	—	49,994
Repurchase of common stock	(1,148)	(1)	(13,793)	—	(116,183)	(129,977)
Issuance of common stock upon vesting of restricted stock units	530	—	—	—	—	—
Taxes related to net share settlement of equity awards	(248)	—	(27,815)	—	—	(27,815)
Stock-based compensation	—	—	67,579	—	—	67,579
Balances at December 31, 2021	39,112	$ 39	$477,323	$ 1,007	$ (41,655)	$ 436,714

The accompanying notes are an integral part of these Consolidated Financial Statements.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. The Company and Summary of Significant Accounting Policies

Description of Business

Qualys, Inc. (the “Company”, “we”, “us”, “our”) was incorporated in the state of Delaware on December 30, 1999. The Company is headquartered in Foster City, California and has wholly-owned subsidiaries throughout the world. The Company is a pioneer and leading provider of cloud-based IT, security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber-attacks and achieve compliance with internal policies and external regulations. The Company’s cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing and the proliferation of geographically dispersed IT assets. Organizations can use the Company’s integrated suite of solutions delivered on its Qualys Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

Basis of Presentation

The accompanying consolidated financial statements and footnotes have been prepared in accordance with U.S. GAAP as well as the instructions to Form 10-K and the rules and regulations of the SEC. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company’s consolidated financial position, results of operations and cash flows for the periods presented. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Risks and Uncertainties

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. As a result of COVID-19, the Company has modified certain aspects of its business, including restricting employee travel, requiring employees to work from home, and canceling certain events and meetings, among other modifications. The Company will continue to actively monitor the situation and may take further actions that alter its business operations as may be required by federal, state or local authorities or that the Company determines are in the best interests of its employees, customers, partners, suppliers and stockholders. While the Company has not incurred significant disruptions from the COVID-19 pandemic to date and does not expect the pandemic will have a significant impact on the Company’s business in 2022, the Company is unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration of the outbreak, actions that may be taken by governmental authorities and the impact to the business of its customers and partners. The Company will continue to evaluate the nature and extent of the impact to its business, financial position, results of operations and cash flows.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting period. The Company’s management regularly assesses these estimates, which primarily affect revenue recognition, allowance for credit loss, the valuation of goodwill and intangible assets, leases, stock-based compensation and income tax provision. Actual results could differ from those estimates and such differences may be material to the accompanying consolidated financial statements.

Concentration of Credit Risk

The Company invests its cash and cash equivalents with major financial institutions. Cash balances with any one institution at times may be in excess of federally insured limits. Cash equivalents are invested in high-quality investment grade financial instruments and are diversified. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Credit risk with respect to accounts receivable is dispersed due to the large number of customers. Collateral is not required for accounts receivable. As of December 31, 2021 and 2020, no customer or channel partner accounted for more than 10% of the Company's revenues and accounts receivable balance.

Cash, Cash Equivalents, Restricted cash and Short-Term and Long-Term Marketable Securities

Cash and cash equivalents include cash held in banks, highly liquid money market funds and commercial paper, all with original maturities of three months or less when acquired. The Company's short-term and long-term marketable securities consist of fixed-income U.S. and foreign government agency securities, corporate bonds, asset-backed securities and commercial paper. Management determines the appropriate classification of the Company's investments at the time of purchase and reevaluates such designation at each balance sheet date. The Company classifies its marketable securities as either short-term or long-term based on each instrument's underlying remaining contractual maturity date.

As of both December 31, 2021 and 2020, the Company has a restricted cash balance of $1.2 million in the form of a letter of credit issued to the landlord of the Company's California headquarter office lease as security deposit.

Cash equivalents are stated at cost, which approximates fair market value. Short-term and long-term marketable securities are classified as available-for-sale debt securities (AFS debt securities) and are carried at fair value. Unrealized gains and losses in fair value of the AFS debt securities are reported in other comprehensive income (loss). When the AFS debt securities are sold, cost is based on the specific identification method, and the realized gains and losses are included in other income (expense), net in the consolidated statements of operations. AFS debt securities are reviewed quarterly for impairment. An investment is considered impaired when its fair value is below its amortized cost. Declines in fair value from amortized cost for AFS debt securities that the company intends to sell or will more likely than not be required to sell before the expected recovery of the amortized cost basis are charged to other income (expense), net in the period in which the loss occurs. Otherwise, the credit loss component of the impairment is recorded as allowance for credit losses with an offsetting entry charged to other income (expense), net, while the remaining loss is recognized in other comprehensive income (loss).

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for credit losses is determined on a collective basis where similar risk characteristics exist and on an individual basis when we identify significant customers or invoices with collectability issues. The estimate for credit losses considers historical write-offs by aging category, that are adjusted for current conditions and reasonable and supportable forecasts of future losses. Any change in the assumptions used in analyzing credit losses may result in additional allowances being recognized in the period in which the change occurs. When the Company ultimately concludes that a receivable is uncollectible, the balance is written off against the allowance for credit losses. Payments subsequently received on such receivables are recognized in the period received. The allowance for credit losses recognized and write-offs charged against the allowance were not significant for the years ended December 31, 2021 and 2020.

Non-marketable securities

In 2018, the Company invested $2.5 million in preferred stock of a privately-held company (the "Investee"). The fair value of the investment is not readily available, and there are no quoted market prices for the investment. The Company elected the measurement alternative to account for the investment at cost less impairment and will measure the investment at fair value when the Company identifies observable price changes. The investment is assessed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. No impairment has been incurred related to the investment. The investment is included in other noncurrent assets in the consolidated balance sheets. The Company has not received any dividends from the investment.

In 2019, the Company made an advance payment of $0.6 million to the Investee for it to perform certain technology development work, which should either be settled in the form of royalty fee charges when the technology materializes and is licensed to the Company or, otherwise, should be repaid to the Company in cash. The advance payment was recorded in other non-current assets in the consolidated balance sheet. During the fourth quarter ended December 31, 2021, the technology has not been developed and the Company decided to no longer pursue the development of the technology or the collection of the advanced amount. Accordingly, the entire amount of the advance payment was written off and recorded in the general and administrative expense during the year ended December 31, 2021.

Property and Equipment, net

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful life of the asset or the remaining lease term.

The Company purchases physical scanner appliances and other computer equipment that are provided to customers on a subscription basis. This equipment is recorded within property and equipment and the depreciation is recorded in cost of revenues over an estimated useful life of three years.

Upon retirement or disposal, the cost of assets and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations. Repairs and maintenance that do not extend the life of an asset are expensed as incurred and major improvements are capitalized as property and equipment.

Leases

The Company leases certain offices, computer equipment and its data center facilities under finance leases and non-cancelable operating leases. For both operating and finance leases, we recognize a right-of-use asset, which represents our right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term. Many of our leases include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments and lease terms when appropriate. The present value of the lease payments is calculated using the incremental borrowing rate of the underlying leases determined at lease commencement. As most of our leases do not provide a readily determinable implicit rate, the Company determines an incremental borrowing rate using a portfolio approach based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term as the leases.

Where the Company is the lessee, the Company elects to account for non-lease components associated with its leases (e.g., common area maintenance costs) and lease components separately for substantially all of its asset classes, except for data centers, for which the Company elected to combine lease and non-lease components. For leases with a term of one year or less, the Company has elected not to record the right-of-use asset or liability.

In arrangements where the Company is the lessor, the Company elected to apply the practical expedient to account for lease components (e.g., customer premise equipment) and non-lease components (e.g., service revenue) as combined components as revenue under ASC 606 as service revenues are the predominant components in the arrangements.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets, which consist of property and equipment, and intangible assets subject to amortization, for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's estimated fair value. For the years ended December 31, 2021, 2020 and 2019, there was no impairment of long-lived assets.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. Goodwill and indefinite-lived intangible assets are not amortized but tested for impairment at least annually or more frequently if certain circumstances indicate a possible impairment may exist. The goodwill impairment 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 and the indefinite-lived intangible assets, the Company first performs a qualitative assessment to determine if it is more likely than not (a more than 50% likelihood) that the fair value of the reporting unit or the indefinite-lived intangible assets is less than their carrying amount. If the fair value is not considered to be less than the carrying amount, no further evaluation is necessary. Otherwise, the Company will perform a quantitative test. Goodwill impairment is measured as the amount by which the carrying value of the reporting unit or the indefinite-lived intangible assets exceeds their fair value. The Company performed the annual assessments on December 1, 2021 and 2020 and concluded there was no impairment of goodwill or the indefinite-lived intangible assets.

Business Combinations

The Company applies the provisions of ASC 805, Business Combinations, in accounting for its acquisitions. It requires the Company to recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as any contingent consideration, where applicable, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to its consolidated statements of operations.

Derivative Financial Instruments

Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company uses foreign currency forward contracts, with maturities of 13 months or less, to mitigate the impact of foreign currency fluctuations of certain non-U.S. dollar denominated net asset positions, to date primarily cash, accounts receivable and operating lease liabilities, as well as to manage foreign currency fluctuation risk related to forecasted transactions. Open contracts are recorded within prepaid expenses and other current assets, other noncurrent assets, accrued liabilities or other noncurrent liabilities in the consolidated balance sheets. Gains and losses resulting from currency exchange rate movements on non-designated forward contracts are recognized in other income (expense), net. Any gains or losses from derivatives designated as cash flow hedges are first recorded within accumulated other comprehensive income (“AOCI”) and then reclassified into revenue or operating expenses when the hedged item impacts the consolidated statements of operations. Cash flows related to these forward contracts are classified in our consolidated statements of cash flows in the same manner as the underlying hedged transaction within cash flows from operating activities.

Stock-Based Compensation

The Company recognizes the fair value of its stock options, restricted stock units (“RSUs”) and stock purchase rights under the employee stock purchase plan (the “ESPP”) on a straight-line basis over the requisite service periods. The fair value of each stock option or stock purchase right is estimated on the date of grant using the Black-Scholes-Merton option pricing model and the fair value of each RSU is based on the Company’s common stock price on the date of grant. Compensation expenses for performance-based stock options (“PSOs”) and performance-based restricted stock units (“PSUs”) are recorded based on expected achievement of the performance metrics specified in the grant, which are assessed on a quarterly basis. Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture materially differs from original estimates.

Revenue Recognition

The Company derives revenues from subscriptions that require customers to pay a fee in order to access the Company’s cloud solutions. Contract period with customers generally ranges from less than a year to five years. The subscription fee entitles the customer to an unlimited number of scans for a specified number of networked devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. The Company’s physical and virtual scanner appliances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for the Company's solutions. In some limited cases, the Company also provides certain computer equipment used to extend its Qualys Cloud Platform into its customers' private cloud environment. Customers are required to return physical scanner appliances and computer equipment if they do not renew their subscriptions.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

At the inception of a customer contract, the Company makes an assessment as to that customer's ability to pay for the services provided. The Company assesses collectability based on several factors, including credit worthiness of the customer along with past transaction history. In addition, the Company performs periodic evaluations of its customers' financial condition.

Most of the Company's revenue contracts are subscription based and contain a single performance obligation. The subscription contracts typically do not offer to the customers any future rights that would constitute material rights. Contract prices are generally composed of fixed consideration for a specific period of time as the Company in general does not offer refunds, volume rebates, customer loyalty programs or other forms of customer incentive payments. In limited situations, contract prices are contingent on future events, such as actual usage during the contract terms, which are accounted for as variable consideration and estimated based on the most likely amount of consideration that the Company is expected to be entitled to. Estimates are included in the contract price to the extent that it is considered probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Such estimates are made at contract inception and updated periodically when additional information becomes available. A cumulative catch-up adjustment is made when there is a change in the estimate of variable consideration.

As the Company's cloud-based subscription services are delivered to customers electronically and over time, revenue is generally recognized ratably over the contract terms. When physical equipment is provided to the customers as part of the subscription service contract, the Company applies the practical expedient allowed under ASC 842 Leases to combine lease and nonlease components as a combined component to be accounted for under ASC 606, as the Company determined that the software subscription is the predominant component of the combined components. Therefore, the Company recognizes revenue for the physical equipment ratably over the related subscription period.

Contract modifications happen when there is an upsell, where the customers subsequently enter into contract with the Company to purchase additional product offerings or additional scans for additional devices. Contract modifications related to upsells are typically accounted for prospectively.

Deferred revenues consist of customer contracts billed or cash received that will be recognized in the future under subscriptions existing at the balance sheet date. The current portion of deferred revenues represents amounts that are expected to be recognized within one year of the balance sheet date.

Costs of shipping and handling charges incurred by the Company associated with physical scanner appliances and other computer equipment are included in cost of revenues. Sales taxes and other taxes collected from customers to be remitted to government authorities are excluded from revenues.

Incremental direct costs of obtaining a contract, which consist of sales commissions primarily for new business and upsells, are deferred and amortized over the estimated life of the customer relationship if renewals are expected and the renewal commission is not commensurate with the initial commission. The Company elected the practical expedient to expense commissions on renewals where the specific anticipated contract term amortization period is one year or less. The Company amortizes the capitalized commission cost as a selling expense on a straight-line basis over a period of five years. The Company classifies deferred commissions as current or noncurrent based on the timing of when it expects to recognize the expense. The current and noncurrent portions of deferred commissions are included in prepaid expenses and other current assets and other noncurrent assets, respectively, in its consolidated balance sheets.

Advertising Expenses

Advertising costs are expensed as incurred and are included in sales and marketing expense in the consolidated statements of operations. The Company incurred advertising costs of $2.1 million, $1.6 million and $1.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Income Taxes

The Company provides for the effect of income taxes in its consolidated financial statements using the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryovers, and tax credit carry forwards. The Company regularly reviews its deferred tax assets for recoverability and establishes a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this assessment, the Company takes into account predictions of the amount and category of taxable income from various sources and all available positive and negative evidence about these possible sources of taxable income. The weight given to the potential effect of negative and positive evidence is commensurate with the extent to which the strength of the evidence can be objectively verified. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Income tax expense or benefit is recognized for the amount of taxes payable or refundable for the current year and for deferred tax assets and liabilities for the tax consequences of events that have been recognized in an entity's financial statements or tax returns. The Company must make significant assumptions, judgments and estimates to determine its current income tax provision (benefit), its deferred tax assets and liabilities, and any valuation allowance to be recorded against its deferred tax assets. The Company's estimates and assumptions may differ from the actual results as reflected on its income tax returns and will record the required adjustments when they are identified or resolved.

The Company applies a two-step approach to determining the financial statement recognition and measurement of uncertain tax positions. The Company only recognizes an income tax expense or benefit with respect to uncertain tax positions in its financial statements that the Company judges is more likely than not to be sustained solely on its technical merits in a tax audit, including resolution of any related appeals or litigation processes. To make this judgment, the Company must interpret complex and sometimes ambiguous tax laws, regulations and administrative practices. If an income tax position meets the more likely than not recognition threshold, then the Company must measure the amount of the tax benefit to be recognized by determining the largest amount of tax benefit that has a greater than a 50% likelihood of being realized upon effective settlement with a taxing authority that has full knowledge of all of the relevant facts. It is inherently difficult and subjective to estimate such amounts, as this requires the Company to determine the probability of various possible settlement outcomes. To determine if a tax position is effectively settled after a tax examination has been completed, the Company must also estimate the likelihood that another taxing authority could review the respective tax position. The Company must also determine when it is reasonably possible that the amount of unrecognized tax benefits will significantly increase or decrease in the 12 months after each fiscal year-end. These judgments are difficult because a taxing authority may change its behavior as a result of the Company's disclosures in its financial statements. The Company must reevaluate its income tax positions on a quarterly basis to consider factors such as changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in recognition of a tax benefit or an additional charge to the tax provision. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes.

Comprehensive Income (Loss)

Other comprehensive income (loss) consists of unrealized gains (losses) on marketable securities, net of tax, and derivative financial instruments designated as cash flow hedges which are not included in the Company's net income. Total comprehensive income includes net income and other comprehensive income (loss) and is included in the consolidated statements of comprehensive income.

Foreign Currency Transactions

The Company's operations are conducted in various countries around the world and the financial statements of its foreign subsidiaries are reported in the U.S. dollar as their respective functional currency. Monetary assets and liabilities denominated in foreign currencies have been re-measured into U.S. dollars using the exchange rates in effect at the balance sheet date, and income and expenses are re-measured at average exchange rates during the period. Foreign currency re-measurement gains and losses and foreign currency transaction gains and losses are recognized in other income (expense), net.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of shares outstanding plus potentially dilutive shares outstanding during the period. The potentially dilutive shares are computed by applying the treasury stock method to the Company's stock options, RSUs and the stock purchase rights under the ESPP. Any potential shares that would be anti-dilutive are excluded from the computation of diluted net income per share.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2019-12, Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for the Company for fiscal years beginning after December 15, 2020. Most amendments within the standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company adopted ASU 2019-12 in the first quarter of 2021 with no material impact on the Company's consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

The Company does not believe any other new accounting pronouncements issued by the FASB that have not become effective will have a material impact on its consolidated financial statements.

NOTE 2. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For certain of the Company's financial instruments, including certain cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate their fair values due to the relatively short maturity of these balances.

The Company measures and reports certain cash equivalents, marketable securities, derivative foreign currency forward contracts at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, including quoted prices for identical assets or liabilities in less active or inactive markets, quoted prices for similar assets or liabilities in active markets, or inputs other than quoted prices that are observable for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments consist of assets and liabilities measured using Level 1 and 2 inputs. Level 1 assets include a highly liquid money market fund, which is valued using unadjusted quoted prices that are available in an active market for an identical asset. Level 2 assets include fixed-income U.S. Treasury and government agency securities, commercial paper, corporate bonds, asset-backed securities, foreign government securities and derivative financial instruments consisting of foreign currency forward contracts. The securities, bonds and commercial paper are valued using prices from independent pricing services based on quoted prices of identical instruments in less active or inactive markets, quoted prices of similar instruments in active markets, or industry models using data inputs such as interest rates and prices that can be directly observed or corroborated in active markets. The foreign currency forward contracts are valued using observable inputs, such as quotations on forward foreign exchange points and foreign interest rates.

The Company's cash and cash equivalents and marketable securities consist of the following:

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$ 61,220	$—	$ —	$ 61,220
Money market funds	75,258	—	—	75,258
Commercial paper	850	—	—	850
Total	137,328	—	—	137,328
Short-term marketable securities:				
Commercial paper	28,869	101	(7)	28,963
Corporate bonds	3,952	—	—	3,952
Asset-backed securities	217,160	2	(163)	216,999
U.S. Treasury and government agencies	18,046	—	—	18,046
Total	268,027	103	(170)	267,960
Long-term marketable securities:				
Asset-backed securities	14,941	6	(36)	14,911
U.S. Treasury and government agencies	37,664	—	(136)	37,528
Foreign government	1,007	12	—	1,019
Corporate bonds	57,762	160	(182)	57,740
Total	111,374	178	(354)	111,198
Total	$516,729	$281	$(524)	$516,486

	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$ 33,105	$ —	$—	$ 33,105
Money market funds	38,028	—	—	38,028
Commercial paper	2,999	—	—	2,999
Total	74,132	—	—	74,132
Short-term marketable securities:				
Commercial paper	6,147	—	—	6,147
Corporate bonds	24,368	170	—	24,538
Asset-backed securities	6,263	18	—	6,281
U.S. Treasury and government agencies	244,568	369	(11)	244,926
Total	281,346	557	(11)	281,892
Long-term marketable securities:				
Asset-backed securities	38,456	160	(3)	38,613
U.S. Treasury and government agencies	6,884	17	—	6,901
Foreign government	1,006	31	—	1,037
Corporate bonds	51,068	839	—	51,907
Total	97,414	1,047	(3)	98,458
Total	$452,892	$1,604	$(14)	$454,482

As of December 31, 2021 and 2020, there were no marketable securities that had been in a continuous unrealized loss position for 12 months or longer. The Company had the ability and intent to hold all marketable securities that were in an unrealized loss position until recovery of the amortized cost basis. The Company considered the extent to which fair value was less than amortized cost basis and conditions related to security's industry and geography and changes to the ratings, if any, and concluded the decline in fair value compared to carrying value was not related to credit loss.

The following table sets forth by level within the fair value hierarchy the fair value of the Company's cash equivalents and marketable securities measured on a recurring basis:

	December 31, 2021		
	Level 1	Level 2	Fair Value
	(in thousands)		
Money market funds	$75,258	$ —	$ 75,258
Commercial paper	—	18,896	18,896
U.S. Treasury and government agencies	—	254,527	254,527
Foreign government	—	1,019	1,019
Corporate bonds	—	86,703	86,703
Asset-backed securities	—	18,863	18,863
Total	$75,258	$380,008	$455,266

	December 31, 2020		
	Level 1	Level 2	Fair Value
		(in thousands)	
Money market funds	$38,028	$ —	$ 38,028
Commercial paper	—	9,146	9,146
U.S. Treasury and government agencies	—	251,827	251,827
Foreign government	—	1,037	1,037
Corporate bonds	—	76,445	76,445
Asset-backed securities	—	44,894	44,894
Total	$38,028	$383,349	$421,377

The following summarizes the fair value of marketable securities by contractual maturity:

	December 31, 2021			
	Mature within One Year	Mature after One Year through Two Years	Mature over Two Years	Fair Value
		(in thousands)		
Commercial paper	$ 18,896	$ —	$ —	$ 18,896
U.S. Treasury and government agencies	216,999	37,528	—	254,527
Foreign government	—	1,019	—	1,019
Corporate bonds	28,964	38,407	19,332	86,703
Asset-backed securities	3,951	7,959	6,953	18,863
Total	$268,810	$84,913	$26,285	$380,008

Derivative Financial Instruments

Designated cash flow hedges

The Company enters into foreign currency forward contracts to reduce the risk of variability in future cash flow due to foreign currency exchange rate fluctuation from certain forecasted subscription revenue orders billed in GBP and Euro and operation expenses incurred in INR, which are designated as cash flow hedges. Unrealized foreign exchange gains or losses related to those designated cash flow hedge contracts are recorded in Accumulated other comprehensive income (“AOCI”) and will be reclassified into revenues or operating expenses, respectively, in the same periods when the hedged transactions hit earnings.

As of December 31, 2021, the Company had designated cash flow hedge forward contracts with notional amounts of €29.8 million, £9.4 million and Rs.2,955.3 million. As of December 31, 2020, the Company had designated cash flow hedge forward contracts with notional amounts of €25.9 million, £8.7 million and Rs.1,933.5 million. As of December 31, 2021, a net amount of unrealized gains of $1.0 million before tax on the foreign currency forward contracts for GBP and Euro reported in AOCI is expected to be reclassified into revenue within the next 12 months. As of December 31, 2021, a net amount of unrealized gains of $0.3 million before tax on the foreign currency forward contracts for INR reported in AOCI is expected to be reclassified into operating expenses within the next 12 months.

Non-designated forward contracts

The Company also uses foreign currency forward contracts to hedge certain foreign currency denominated assets or liabilities, which are not designated as cashflow hedges.

As of December 31, 2021, the Company had non-designated forward contracts with notional amounts of €34.5 million, £11.6 million, Rs.74.9 million, C$2.5 million and CHF1.0 million. As of December 31, 2020, the Company had non-designated forward contracts with notional amounts of €17.7 million, £6.5 million and Rs.32.8 million.

The following summarizes derivative financial instruments as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
	(in thousands)	
Assets		
Foreign currency forward contracts designated as cash flow hedge	$1,737	$ 511
Foreign currency forward contracts not designated as hedging instruments	1,599	27
Total	$3,336	$ 538
Liabilities		
Foreign currency forward contracts designated as cash flow hedge	$ (181)	$(2,200)
Foreign currency forward contracts not designated as hedging instruments	(207)	(1,677)
Total	$ (388)	$(3,877)

All foreign currency forward contracts were valued at fair value using Level 2 inputs.

The following summarizes the gains (losses) recognized from forward contracts and other foreign currency transactions in other income (expense), net in the consolidated statements of operations:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Net gains (losses) from non-designated forward contracts	$ 2,452	$(1,634)	$ 438
Other foreign currency transactions gains (losses)	(2,749)	1,894	(792)
Total foreign exchange gains (losses), net	(297)	260	(354)
Other expenses	(276)	(253)	(253)
Other income (expense), net	$ (573)	$ 7	$(607)

NOTE 3. Accumulated Other Comprehensive Income (Loss)

The components and changes in accumulated other comprehensive income (loss) were as follows:

	Available-for-sale debt securities	Cash flow hedges	Total
		(in thousands)	
Balances at December 31, 2018	**$ (545)**	**$ (41)**	**$ (586)**
Change in unrealized gains during the period	1,610	651	2,261
Net gains reclassified into income during the period	—	(169)	(169)
Income tax provision	(243)	(101)	(344)
Net change during the period	1,367	381	1,748
Balances at December 31, 2019	**822**	**340**	**1,162**
Change in unrealized gains (losses) during the period	549	(2,099)	(1,550)
Net gains reclassified into income during the period	(25)	(564)	(589)
Income tax benefit (provision)	(122)	615	493
Net change during the period	402	(2,048)	(1,646)
Balances at December 31, 2020	**1,224**	**(1,708)**	**(484)**
Change in unrealized gains (losses) during the period	(1,854)	2,837	983
Net losses reclassified into income during the period	22	933	955
Income tax benefit (provision)	423	(870)	(447)
Net change during the period	(1,409)	2,900	1,491
Balances at December 31, 2021	**$ (185)**	**$ 1,192**	**$ 1,007**

Annual Report

The effects on income before income taxes of amounts reclassified from AOCI to the consolidated statements of operations were as follows:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Reclassification of AOCI—Available-for-sale debt securities			
Other income (expense), net	$ (22)	$ 25	$—
Reclassification of AOCI—Cash flow hedges			
Revenues	$(1,667)	$ 960	$169
Cost of revenues	149	(76)	—
Research and development	492	(264)	—
Sales and marketing	28	(20)	—
General and administrative	65	(36)	—
Total	$ (933)	$ 564	$169

NOTE 4. Property and Equipment, Net

Property and equipment, net, which includes assets under finance leases, consists of the following:

	December 31,	
	2021	2020
	(in thousands)	
Computer equipment	$ 161,809	$ 136,286
Computer software	25,807	26,164
Leasehold improvements	21,092	21,107
Scanner appliances	16,510	16,749
Furniture, fixtures and equipment	6,479	6,599
Finance leases—right of use asset	—	3,503
Total property and equipment	231,697	210,408
Less: accumulated depreciation and amortization	(169,843)	(145,558)
Property and equipment, net	$ 61,854	$ 64,850

As of December 31, 2021 and 2020, physical scanner appliances and other computer equipment that are or will be subject to leases by customers had a net carrying value of $5.3 million and $7.5 million, respectively, including assets that had not been placed in service of $1.3 million and $1.9 million, respectively. Depreciation and amortization expenses relating to property and equipment were $28.5 million, $26.1 million and $24.9 million for the years ended December 31, 2021, 2020 and 2019, respectively. Assets under finance leases were acquired upon completion of lease term and placed within computer equipment as of December 31, 2021.

NOTE 5. Revenue from Contracts with Customers

The Company records deferred revenue when cash payments are received or due in advance of its performance obligations offset by revenue recognized in the period. Revenues of $211.0 million and $188.6 million were recognized during the years ended December 31, 2021 and December 31, 2020, respectively, which amounts were included in the deferred revenue balances as of December 31, 2020 and December 31, 2019, respectively.

The Company's payment terms vary by the type and location of its customers. The term between invoicing and when payment is due is not significant. In certain circumstances, based on the credit quality of the customer, the Company requires payment before the products or services are delivered to the customer.

The following table sets forth the expected revenue from all remaining performance obligations as of December 31, 2021:

	(in thousands)
2022	$142,812
2023	101,482
2024	36,361
2025	2,422
2026	499
2027 and thereafter	110
Total	$283,687

Revenues allocated to remaining performance obligations represents the transaction price of noncancelable orders for which service has not been performed, which include deferred revenue and the amounts that will be invoiced and recognized as revenues in future periods from open contracts and excludes unexercised renewals. The Company applied the short-term contract exemption to exclude the remaining performance obligations that are part of a contract that has an original expected duration of one year or less.

From time to time, the Company enters into contracts with customers that extend beyond one year, with certain of its customers electing to pay for more than one year of services upon contract execution. The Company concluded that these contracts did not contain a financing component.

Revenues by sales channel are as follows:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Direct	$242,709	$212,296	$186,130
Partner	168,463	150,667	135,477
Total	$411,172	$362,963	$321,607

The Company utilizes partners to enable and accelerate the adoption of its cloud platform by increasing its distribution capabilities and market awareness of its cloud platform as well as by targeting geographic regions outside the reach of its direct sales force. The Company's channel partners maintain relationships with their customers throughout the territories in which they operate and provide their customers with services and third-party solutions to help meet those customers' evolving security and compliance requirements. As such, these partners may offer the Company's IT security and compliance solutions in conjunction with one or more of their own products or services and act as a conduit through which the Company can connect with these prospective customers to offer its solutions. For sales involving a channel partner, the channel partner engages with the prospective customer directly and involves the Company's sales team as needed to assist in developing and closing an order. When a channel partner secures a sale, the Company sells the associated subscription to the channel partner who in turn resells the subscription to the customer. Sales to channel partners are made at a discount and revenues are recorded at this discounted price over the subscription terms. The Company does not have any influence or specific knowledge of its partners' selling terms with their customers. See Note 13, "Segment Information and Information about Geographic Area" for disaggregation of revenue by geographic area.

Deferred costs to obtain contracts are as follows:

	December 31,	
	2021	2020
	(in thousands)	
Current	$4,223	$3,459
Noncurrent	$8,391	$6,906

For the years ended December 31, 2021, 2020 and 2019, the Company recognized $4.0 million, $3.0 million and $2.0 million, respectively, of amortization expense relating to deferred costs to obtain contracts in sales and marketing expense in the consolidated statements of operations. During the same periods, there was no impairment loss related to the deferred costs to obtain contracts.

NOTE 6. Acquisitions

The following table summarizes the purchase price allocation of business and asset acquisitions for the years ended December 31, 2021, 2020 and 2019 based on estimated fair values of the acquired assets as of the acquisition date:

Acquiree	Acquisition Date	Purchase Consideration	Purchased Intangible Assets	Goodwill
		(in thousands)		
TotalCloud	August 19, 2021	$1,200	$1,200	$—
Spell security	July 24, 2020	$1,500	$1,500	$—
Adya	January 10, 2019	$1,000	$ 900	$100

On August 19, 2021, the Company acquired certain developed technology intangible assets of TotalCloud, a privately held company incorporated in India, for a total cash consideration of $1.2 million, of which $1.1 million was paid on the acquisition date and the remaining $0.1 million will be due one year from the acquisition date, subject to potential adjustment from possible indemnity claims. TotalCloud's technology strengthens the Company's cloud security solution by allowing customers to build user-defined workflows for custom policies and execute them on-demand for simplified security and compliance. The acquired intangible assets will be amortized over five years.

On July 24, 2020, the Company acquired certain intangible assets of Spell Security, a privately held company incorporated in India, for a total cash consideration of $1.5 million, of which $1.3 million was paid on the acquisition date and the remaining $0.2 million was deferred and paid in October

2021. Spell Security's technology expands the Company's endpoint behavior detection, threat hunting, malware research and multi-layered response capabilities for its EDR application. The Company recognized intangible assets of $1.0 million for developed technology and $0.5 million for non-compete agreements, which will be amortized over four and two years, respectively.

On January 10, 2019, the Company acquired Adya, an India-based company. The acquisition included a cloud application management platform, which enables security and compliance audits of SaaS applications. Total purchase consideration included $0.2 million of deferred consideration due 18 months from the closing date of the acquisition, subject to potential adjustment from possible indemnity claims, which was fully paid to Adya during the fiscal year ended December 31, 2020. The acquired intangible assets relating to Adya's developed technology are being amortized over the estimated useful lives of approximately four years. Goodwill arising from the Adya acquisition is deductible for tax purposes over 15 years.

There were no changes in the carrying amount of goodwill for the years ended December 31, 2021 and 2020.

NOTE 7. Intangible Assets, Net

Intangible assets consist primarily of developed technology and patent licenses acquired from business or asset acquisitions. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets.

The carrying values of intangible assets are as follows:

			December 31, 2021		
	Weighted Average Life (Years)	Weighted Average Remaining Life (Years)	Cost	Accumulated Amortization	Net Book Value
				(in thousands)	
Developed technology	4.5	0.9	$28,556	$(22,463)	$6,093
Patent licenses	14.0	2.7	1,387	(1,121)	266
Non-compete agreements	2.0	0.6	500	(354)	146
Total intangibles subject to amortization			$30,443	$(23,938)	6,505
Intangible assets not subject to amortization					40
Total intangible assets, net					$6,545

			December 31, 2020		
	Weighted Average Life (Years)	Weighted Average Remaining Life (Years)	Cost	Accumulated Amortization	Net Book Value
				(in thousands)	
Developed technology	4.4	1.8	$27,356	$(16,152)	$11,204
Patent licenses	14.0	3.7	1,387	(1,021)	366
Non-compete agreements	2.0	1.6	500	(104)	396
Total intangibles subject to amortization			$29,243	$(17,277)	11,966
Intangible assets not subject to amortization					40
Total intangible assets, net					$12,006

Intangible assets amortization expenses were $6.7 million, $6.3 million and $6.1 million for the years ended December 31, 2021, 2020 and 2019, respectively, which were recorded in the consolidated statements of operations.

As of December 31, 2021, the Company expects amortization expense in future periods to be as follows:

	(in thousands)
2022	$5,063
2023	590
2024	452
2025	240
2026	160
Total expected future amortization expense	$6,505

NOTE 8. Leases

The Company leases certain offices, computer equipment and its data center facilities under non-cancelable operating leases for varying periods through 2028. While under the Company's lease agreements the Company has options to extend its certain leases, the Company has not included renewal options in determining the lease terms for calculating its lease liabilities, as these options are not reasonably certain of being exercised. Lease expense was $16.8 million, $16.7 million and $13.9 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Cash payments included in the measurement of lease liabilities	$14,646	$13,403	$ 9,372
Lease liabilities arising from obtaining right-of-use assets	$ 4,110	$15,837	$17,359

The weighted average remaining lease term and the weighted average discount rate of the Company's operating leases were as follows:

	December 31, 2021	December 31, 2020
Weighted average remaining lease term (years)	3.3	4.1
Weighted average discount rate	4.8%	4.8%

Maturities of the Company's operating lease liabilities as of December 31, 2021 are as follows:

	(in thousands)
2022	$ 14,543
2023	12,042
2024	10,735
2025	6,536
2026	4,498
2027 and thereafter	5,819
Total minimum lease payments	54,173
Less: interest	(5,651)
Present value of net minimum lease payments	48,522
Less: lease liabilities, current	(12,608)
Lease liabilities, noncurrent	$ 35,914

NOTE 9. Commitment and Contingencies

Purchase Obligation

The Company has entered into agreements to purchase goods and services in the ordinary course of business. As of December 31, 2021, these remaining purchase commitments for future periods are as follows:

	(in thousands)
2022	$23,672
2023	11,488
2024	7,599
2025	936
Total purchase commitments	$43,695

Indemnifications

The Company from time to time enters into certain types of contracts that contingently require it to indemnify various parties against claims from third parties. These contracts primarily relate to (i) the Company's bylaws, under which it must indemnify directors and executive officers, and may indemnify other officers and employees, for liabilities arising out of their relationship, (ii) contracts under which the Company must indemnify directors and certain officers for liabilities arising out of their relationship, and

(iii) contracts under which the Company may be required to indemnify customers or resellers from certain liabilities arising from potential infringement of intellectual property rights, as well as potential damages caused by limited product defects. To date, the Company has not incurred and has not recorded any liability in connection with such indemnifications.

The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors.

Legal Proceedings

From time to time the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. The Company records a provision for a liability when it is both probable that a liability has been incurred and the amount can be reasonably estimated. The Company provides disclosure if it is reasonably possible that a loss has been incurred and a range of loss or possible loss can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information.

As of December 31, 2021, there has not been at least a reasonable possibility that the Company has incurred a material loss from any ongoing legal proceedings, individually or taken together. However, litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company’s control. Should any of these estimates and assumptions change or prove to have been incorrect, the Company could incur significant charges related to legal matters which could have a material impact on its results of operations, financial position and cash flows.

NOTE 10. Stockholders’ Equity and Stock-based Compensation

Preferred Stock

Effective October 3, 2012, the Company is authorized to issue 20.0 million shares of undesignated preferred stock with a par value of $0.001 per share. Each series of preferred stock will have such rights and preferences including dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price, and liquidation preferences as determined by the board of directors. As of December 31, 2021, and 2020, there were no issued or outstanding shares of preferred stock.

Common Stock

Equity Incentive Plan

2000 Equity Incentive Plan

Under the 2000 Equity Incentive Plan (“2000 Plan”), the Company was authorized to grant to eligible participants either incentive stock options (“ISOs”) or non-statutory stock options (“NSOs”). The ISOs were granted at a price per share not less than the fair market value at the date of grant. The NSOs were granted at a price per share not less than 85% of the fair market value at the date of grant. Options granted generally vest over a period of up to four years, with a maximum term of ten years. The 2000 Plan was terminated in connection with the closing of the Company’s initial public offering, and accordingly, no shares are currently available for grant under the 2000 Plan. The 2000 Plan continues to govern outstanding awards granted thereunder.

2012 Equity Incentive Plan

The 2012 Equity Incentive Plan (“2012 Plan”) was adopted and approved in September 2012 and became effective on September 26, 2012. Under the 2012 Plan, the Company is authorized to grant to eligible participant’s ISOs, NSOs, stock appreciation rights (“SARs”), restricted stock awards (“RSAs”), RSUs, performance units and performance shares. The number of shares of common stock available for issuance under the 2012 Plan is subject to an annual increase on January 1 of each year by an amount equal to the least of 3,050 thousand shares, 5% of the outstanding shares of stock as of the last day of the immediately preceding fiscal year or an amount determined by the board of directors. For the year ended December 31, 2021, 1,963 thousand shares were added to the 2012 Plan. As of December 31, 2021, a total of 17,662 thousand shares have been authorized for issuance under the 2012 Plan and 8,091 thousand shares are available for future grants. Options may be granted with an exercise price that is at least equal to the fair market value of the Company’s stock at the date of grant and are exercisable when vested. Options and RSU’s granted generally vest over a period of up to four years. ISOs may only be granted to employees and any subsidiary corporations’ employees. All other awards may be granted to employees, directors and consultants and subsidiary corporations’ employees and consultants. Options, SARs, RSUs, performance units and performance awards may be granted with vesting terms as determined by the board of directors and expire no more than ten years after the date of grant or earlier if employment or service is terminated.

2021 Employee Stock Purchase Plan

On June 9, 2021, the Company’s stockholders approved the 2021 ESPP. A total of 600 thousand shares were authorized for issuance to eligible participating employees upon adoption of the ESPP, all of which are available for future purchases as of December 31, 2021. The ESPP provides for consecutive 6-month offering periods beginning on or about August 16 and February 16 of each year. Eligible employees who elect to participate can contribute from 1% to 15% of their eligible compensation through payroll withholding. During any offering period, contribution rates cannot be changed. However, eligible employees may withdraw from the current offering period. Any contributions made prior to each purchase date in the case of withdrawal or termination of employment will be refunded. On each purchase date, eligible participating employees will purchase the shares at a price per share equal to 85% of the lesser of (i) the fair market value of the Company’s stock on the first trading day of the offering period or (ii) the fair market value of the Company’s stock on the purchase date (i.e., the last trading day of the offering period). The first ESPP offering period commenced on August 16, 2021 and will end on February 15, 2022.

Stock-based Compensation

The following table shows a summary of the stock-based compensation expenses included in the consolidated statements of operations for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Cost of revenues	$ 3,782	$ 2,767	$ 2,262
Research and development	10,750	13,502	11,151
Sales and marketing	6,323	5,785	4,984
General and administrative	46,724	17,981	16,495
Total stock-based compensation	$67,579	$40,035	$34,892

The income tax benefit related to the stock-based compensation expenses was $6.2 million, $5.5 million and $5.5 million for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021, the Company had unrecognized stock-based compensation expenses of $16.7 million, $77.0 million and $0.2 million related to options, RSUs and ESPP, respectively, which are expected to be recognized over weighted-average periods of 2.8 years, 2.8 years and 0.1 years, respectively.

Performance-Based Stock Options and Restricted Stock Units

On December 21, 2018, the compensation committee of the Company's board of directors ("Compensation Committee") granted the equity award for 2019 to the Company's former chief executive officer, Philippe Courtot ("Mr. Courtot"). The first portion of the award consists of 56 thousand RSUs that were scheduled to vest in 16 quarterly increments beginning on January 1, 2019. The second portion of the award consists of a target number of 33 thousand PSUs, which were scheduled to vest at the end of the three-year performance period from January 2019 through December 2021. The actual number of PSUs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth during the three-year performance period from January 2019 through December 2021 and Adjusted EBITDA margin for the fiscal year of 2021. The third portion of the award consists of a target number of 33 thousand PSUs, one third of which (11 thousand target PSUs) was scheduled to vest at the end of each fiscal year of 2019, 2020 and 2021. The actual number of PSUs eligible to vest at each vesting date range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and Adjusted EBITDA margin for each of those years.

On November 2, 2019, the Compensation Committee granted the equity award for 2020 to Mr. Courtot. The first portion of the award consists of 49 thousand RSUs that were scheduled to vest in 16 quarterly installments beginning on December 1, 2019. The second portion of the award consists of a target number of 124 thousand PSOs, which were scheduled to vest at the end of the three-year performance period from January 2020 through December 2022. The actual number of PSOs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and free cash flow per share growth during the performance period.

On December 10, 2020, the Compensation Committee granted the equity award for 2021 to Mr. Courtot. The first portion of the award consists of 69 thousand RSUs that were scheduled to vest in 16 quarterly installments beginning on November 1, 2020. The second portion of the award consists of a target number of 224 thousand PSOs, which were scheduled to vest at the end of the three-year performance period from January 2021 through December 2023. The actual number of PSOs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and free cash flow per share growth during the performance period.

The vesting of the above awards was conditioned on Mr. Courtot's continued service through the vesting dates or, for PSOs and PSUs, the dates that performance is certified in addition to the achievement of performance goals. If Mr. Courtot's employment was terminated (a) by reason of death or disability or (b) by the Company for reasons other than cause or good reason within 12 months following a change in control, then 100% of any unvested portions of these awards would vest, with any vesting in connection with change in control terminations conditioned upon the effectiveness of a release of claims in favor of the Company.

In February 2021 and 2020, 22 thousand shares (representing 200% of target number of awards) and 15 thousand shares (representing 135% of target number of awards) under the equity award for 2019 for Mr. Courtot, vested as a result of the Company achieving the corresponding level of performance goals for 2020 and 2019, respectively.

On March 19, 2021, Mr. Courtot resigned from the Company due to health issues. The Compensation Committee determined that Mr. Courtot's termination of employment was on account of disability. In accordance with the grant agreements of the equity awards for 2021, 2020 and 2019 for Mr. Courtot, all remaining outstanding RSUs, PSUs and PSOs under these grants were subject to accelerated vesting and became fully vested at 100% of the target number of awards as of the date of his termination of employment, which consist of 127 thousand RSUs, 44 thousand PSUs and 348 thousand PSOs. As a result, the Company recognized an additional $27.3 million of stock-based compensation expense due to the accelerated vesting in the consolidated statements of operations for the year ended December 31, 2021.

On April 27, 2021, the Compensation Committee granted to the Company's current president and chief executive officer an equity award consisting of certain RSUs and a target number of 10 thousand PSUs. The PSUs are scheduled to vest at the end of the three-year performance period from January 2021 through December 2023. The actual number of the PSUs eligible to vest range from 0% to 200% of the target number, depending on the level of achievement of goals related to revenue growth and free cash flow per share growth during the performance period. If the Company's current president and chief executive officer is terminated (a) by reason of death or disability or (b) by the Company for reasons other than cause or good reason within 12 months following a change in control, then 100% of any unvested portions of the award will vest, with any vesting in connection with terminations due to change in control conditioned upon the effectiveness of a release of claims in favor of the Company.

On October 28, 2021, the Compensation Committee granted to certain executive officers of the Company equity awards consisting of certain RSUs and an aggregate number of 73 thousand PSUs. The target PSUs are scheduled to vest in three equal annual installments over a three-year period from January 2022 through December 2024. The actual number of the PSUs eligible to vest each year range from 0% to 200% of the annual target number, depending on the level of achievement of goals related to revenue growth and adjusted EBITDA margin corresponding to that year. The vesting and release of the first and second installment is capped at 100% of the target number at the end of the first and second year, respectively, with cumulative achievement over 100%, if any, to be vested and released at the end of the third year, together with the vesting of the third installment. If any of the executive officers is terminated (a) by reason of death or disability or (b) by the Company for reasons other than cause or good reason within 12 months following a change in control, any unvested PSUs eligible to vest pursuant to cumulative achievements over 100% for past installments along with any target number of unvested PSUs for any remaining installments will vest immediately.

For the years ended December 31, 2021, 2020 and 2019, stock-based compensation expenses of $13.3 million, $0.2 million and $0.3 million for PSOs, respectively, and $5.3 million, $2.8 million and $0.9 million for PSUs, respectively, were recognized.

Stock Options

The weighted-average grant date fair value of the Company's stock options granted for the years ended December 31, 2021, 2020 and 2019 was $41.23, $35.49 and $34.02, respectively, using the Black-Scholes-Merton option-pricing model based on the following assumptions:

	Year Ended December 31,		
	2021	2020	2019
Expected term (in years)	5.2 to 5.5	4.5 to 5.5	4.4 to 6.6
Volatility	38% to 41%	38% to 43%	40% to 46%
Risk-free interest rate	0.5% to 1.2%	0.3% to 1.4%	1.5% to 2.4%
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 equal to the expected term at the grant date. The volatility was estimated using the historical volatility derived from the Company's common stock. The Company has not historically declared any dividends and does not expect to in the future.

A summary of the Company's stock option activity is as follows:

	Outstanding Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2020	2,215	$ 59.07	6.5	$139,121
Granted	495	$112.43		
Exercised	(725)[1]	$ 68.91		
Canceled	(147)	$102.92		
Balance as of December 31, 2021	1,838	$ 66.05	6.0	$130,791
Vested and expected to vest—December 31, 2021	1,659	$ 61.43	5.7	$125,769
Exercisable—December 31, 2021	1,168	$ 42.60	4.3	$110,495

(1) Included 348 thousand shares of PSOs.

The total intrinsic value of options exercised for the years ended December 31, 2021, 2020 and 2019 was $42.5 million, $77.5 million and $52.1 million, respectively. Intrinsic value of an option is the difference between the fair value of the Company's common stock at the time of exercise and the exercise price paid.

Restricted Stock Units

A summary of the Company's RSU activity is as follows:

	Outstanding RSUs	Weighted Average Grant Date Fair Value
	(in thousands)	
Balance as of December 31, 2020	1,047	$ 86.78
Granted	583[(1)]	$114.59
Vested	(530)[(2)]	$ 84.97
Canceled	(183)	$ 90.42
Balance as of December 31, 2021	917[(3)]	$104.78
Outstanding and expected to vest—December 31, 2021	815	$104.22

(1) Included 34 thousand shares of PSUs granted to certain executive officers in 2021 and 11 thousand additional shares of PSUs vested as a result of the Company achieving the corresponding level of performance goals for 2020.

(2) Included 11 thousand additional shares of PSUs vested as a result of the Company achieving the corresponding level of performance goals for 2020.

(3) Included 34 thousand shares of PSUs granted to certain executive officers in 2021.

The aggregate fair value of RSUs vested for the years ended December 31, 2021, 2020 and 2019 was $59.5 million, $46.5 million and $37.9 million, respectively.

Employee Stock Purchase Plan

The weighted-average grant date fair value of the Company's ESPP for the year ended December 31, 2021 was $26.88 using the Black-Scholes-Merton option-pricing model based on the following assumptions:

	Year Ended December 31, 2021
Expected term (in years)	0.5
Volatility	34%
Risk-free interest rate	0.1%
Dividend yield	—

The expected term of the ESPP represents the six-month offering period. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates equal to the expected term at the grant date. The volatility was estimated using the historical volatility derived from the Company's common stock. The Company has not historically declared any dividends and does not expect to in the future.

Share Repurchase Program

The Company's share repurchase program was authorized by the board of directors as follows:

Announcement Date	Authorized Dollar Value (in millions)
February 12, 2018	$100.0
October 30, 2018	100.0
October 30, 2019	100.0
May 7, 2020	100.0
February 10, 2021	100.0
November 3, 2021	200.0
Total as of December 31, 2021	$700.0

Shares may be repurchased from time to time on the open market in accordance with Rule 10b-18 of the Exchange Act of 1934, including pursuant to a pre-set trading plan adopted in accordance with Rule 10b5-1 under the Exchange Act. All share repurchases have been made using cash resources. Repurchased shares are retired and reclassified as authorized and unissued shares of common stock. On retirement of the repurchased shares, common stock is reduced by an amount equal to the number of shares being retired multiplied by the par value. The excess amount that is retired over its par value is first allocated as a reduction to additional paid-in capital based on the initial public offering price of the stock, with the remaining excess to retained earnings.

For the years ended December 31, 2021, 2020 and 2019, the Company repurchased 1.1 million shares, 1.3 million shares and 1.0 million shares of its common stock for $130.0 million, $126.7 million and $86.4 million, respectively. As of December 31, 2021, $271.8 million remained available for share repurchases pursuant to the Company's share repurchase program.

NOTE 11. Employee Benefits Plan

The Company's 401(k) Plan was established in 2000 to provide retirement and incidental benefits for its employees. As allowed under section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary deductions for eligible employees. Contributions to the 401(k) Plan are limited to a maximum amount as set periodically by the Internal Revenue Service. For the years ended December 31, 2021, 2020 and 2019, the Company made contributions to the 401(k) Plan of $2.4 million, $1.3 million and $1.3 million, respectively.

The Company contributes to a Provident Fund Plan for its employees in India, which is a defined contribution plan set up in accordance with local labor and tax laws. Gratuity is also paid by the Company to eligible employees in India in accordance with Payment of Gratuity Act, 1972. For the years ended December 31, 2021, 2020 and 2019, the Company contributed $1.7 million, $1.4 million and $1.1 million, respectively, to those plans.

NOTE 12. Income Taxes

The Company's geographical breakdown of income before income taxes is as follows:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Domestic	$80,472	$ 94,099	$72,124
Foreign	8,925	7,938	7,859
Income before income taxes	$89,397	$102,037	$79,983

Income tax provision consists of the following:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Current			
Federal	$20,135	$ 1,944	$ (90)
State	4,324	1,438	646
Foreign	3,701	3,571	3,000
Current income tax provision	28,160	6,953	3,556
Deferred			
Federal	(7,342)	4,239	7,085
State	(1,722)	26	447
Foreign	(659)	(753)	(441)
Deferred income tax provision (benefit)	(9,723)	3,512	7,091
Income tax provision	$18,437	$10,465	$10,647

The reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2021	2020	2019
Federal statutory rate	21.0%	21.0%	21.0%
State taxes	3.1	1.6	1.5
Stock-based compensation	10.3	4.8	4.0
Excess tax benefits related to stock-based compensation	(5.4)	(13.8)	(11.2)
Foreign source income	0.4	0.2	0.1
Change in valuation allowance	0.2	0.8	1.1
Foreign-derived intangible income deduction	(7.0)	(1.7)	—
Federal and state research and development credit	(1.9)	(2.6)	(3.7)
Other	(0.1)	—	0.4
Income tax provision	20.6%	10.3%	13.2%

Deferred Income Taxes

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2021	December 31, 2020
	(in thousands)	
Deferred tax assets		
Research and development credit carryforwards	$ 10,743	$ 16,965
Foreign tax credit carryforwards	933	3,497
Accrued liabilities	1,655	2,019
Deferred revenues	7,250	5,123
Operating lease liabilities	11,777	15,924
Intangible assets	12,377	1,397
Stock-based compensation	4,085	3,907
Other	2,987	720
Gross deferred tax assets	51,807	49,552
Valuation allowance	(11,364)	(11,188)
Net deferred tax assets	40,443	38,364
Deferred tax liabilities		
Fixed assets	(3,320)	(7,017)
Operating leases—right of use asset	(9,010)	(13,054)
Deferred commissions	(3,026)	(2,482)
Total deferred tax liabilities	(15,356)	(22,553)
Net deferred tax assets	$ 25,087	$ 15,811

The realization of deferred tax assets is dependent upon the generation of sufficient taxable income of the appropriate character in future periods. The Company regularly assesses the ability to realize its deferred tax assets and establishes a valuation allowance if it is more-likely than-not that some portion, or all, of the deferred tax assets will not be realized. The Company weighs all available positive and negative evidence, including its earnings history and results of recent operations, scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. Due to the weight of objectively verifiable negative evidence, it is more-likely-than-not that its California deferred tax assets will not be realized as of December 31, 2021. Additionally, due to a lack of sufficient future income of the appropriate character, certain U.S. federal and state deferred tax assets are not more-likely-than-not to be realized. Accordingly, the Company has recorded a valuation allowance of $11.4 million and $11.2 million against such deferred tax assets as of December 31, 2021 and 2020, respectively. The increase of $0.2 million in valuation allowance was mainly associated with the California research and development credit generated during the year ended December 31, 2021 that will not likely be realized in the foreseeable future.

As of December 31, 2021, the Company had federal net operating loss carryforwards of approximately $0.7 million available to reduce federal taxable income. The state net operating loss carryforwards are not material. The federal net operating losses begin to expire in 2022. Utilization of the Company's net operating loss carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2021, the Company had $15.5 million of state research and development credit carryforwards. State research and development credits do not expire. As of December 31, 2021, the Company had foreign tax credit carryforwards of $0.9 million which begin to expire in 2028.

The following table summarizes the activity related to the Company's unrecognized tax benefits:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Unrecognized tax benefits beginning balance	$8,855	$7,778	$6,406
Gross increase for tax positions of prior years	—	4	—
Gross decrease for tax positions of prior years	(25)	—	(12)
Gross increase for tax positions of current year	846	1,258	1,384
Lapse of statute of limitations	—	(185)	—
Total unrecognized tax benefits	$9,676	$8,855	$7,778

The unrecognized tax benefits, if recognized, would impact the income tax provision by $4.9 million, $4.6 million and $4.2 million as of December 31, 2021, 2020 and 2019, respectively. The remaining amount would result in the recognition of a corresponding deferred tax asset that is then offset by a full valuation allowance. As of December 31, 2021, the Company does not believe that its estimates, as otherwise provided for, on such tax positions will significantly increase or decrease within the next twelve months. The Company has elected to include interest and penalties as a component of income tax expense. The amounts were not material for the years ended December 31, 2021, 2020 and 2019.

The Company files income tax returns in the United States, including various state jurisdictions. The Company's subsidiaries file tax returns in various foreign jurisdictions. The tax years 2001 through 2020 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax. The Company is also currently subject to tax audits in various jurisdictions. The Company believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner inconsistent with its expectations, the Company could be required to adjust its income tax provision in the period such resolution occurs.

As of December 31, 2021, the Company has undistributed earnings in certain foreign subsidiaries that the Company has indefinitely reinvested outside the United States. As a result, the Company has not provided for deferred tax liabilities on those earnings. The Company may be required to pay additional income taxes if the Company repatriates those earnings in the future.

NOTE 13. Segment and Geographic Area Information

Under ASC 280 Segment Reporting, operating segments are defined as components of an entity about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates in one segment and has only one reportable segment. The Company's chief operating decision maker is the Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis. All of the Company's principal operations and decision-making functions are located in the United States.

Revenue by geographic area, based on the customer's billing address, is as follows:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
United States	$250,761	$230,444	$206,555
Foreign	160,411	132,519	115,052
Total revenues	$411,172	$362,963	$321,607

Long-lived assets, which consist of Property and equipment, net and Operating leases—right of use asset, by geographic area, are as follows:

	December 31,	
	2021	2020
	(in thousands)	
United States	$66,440	$ 69,256
India	20,401	24,774
Rest of world	12,029	15,658
Total Long-lived Assets	$98,870	$109,688

NOTE 14. Net Income Per Share

The computations for basic and diluted net income per share are as follows:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands, except per share data)		
Numerator:			
Net income	$70,960	$91,572	$69,336
Denominator:			
Basic weighted average shares	39,030	39,167	39,075
Effect of potentially dilutive shares:			
Stock options	863	1,262	1,806
Restricted stock units	224	311	403
Employee stock purchase plan	1	—	—
Diluted weighted average shares	$40,118	$40,740	$41,284
Net income per share:			
Basic	$ 1.82	$ 2.34	$ 1.77
Diluted	$ 1.77	$ 2.25	$ 1.68

Potentially dilutive shares not included in the calculation of diluted net income per share because doing so would be anti-dilutive are as follows:

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Stock options	534	532	460
Restricted stock units	61	52	52
Total anti-dilutive shares	595	584	512

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, Chief Financial Officer and our Principal Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2021. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and our Principal Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021 based on the criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on our evaluation under the criteria set forth in the 2013 Internal Control—Integrated Framework issued by the COSO, our management concluded our internal control over financial reporting was effective as of December 31, 2021.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in its report, which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fourth quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

Except as set forth below, the information required by this item is incorporated by reference to our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021.

Codes of Business Conduct and Ethics

Our Board of Directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer and other executive and senior financial officers. The code of business conduct and ethics is available on our website. We expect that, to the extent required by law, any amendments to the code, or any waivers of its requirements, will be disclosed on our website. We intend to disclose any waiver to the provisions of the code of business conduct and ethics that applies specifically to directors or executive officers by filing such information on a Current Report on Form 8-K with the SEC, to the extent such filing is required by the NASDAQ Stock Market's listing requirements; otherwise, we will disclose such waiver by posting such information on our website.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item with respect to Item 403 of Regulation S-K regarding security ownership of certain beneficial owners and management is incorporated by reference to our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021. For the information required by this item with respect to Item 201(d) of Regulation S-K regarding securities authorized for issuance under equity compensation plans, see "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans" in Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement for our 2022 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2021.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements—The financial statements filed as part of this Annual Report on Form 10-K are listed on the Index to Consolidated Financial Statements in Item 8.

(a)(2) Financial Statement Schedules - All financial statement schedules have been omitted since the required information is not applicable or has been included in the consolidated financial statements and accompanying notes included in this Form 10-K.

(b) Exhibits

			Incorporated by Reference			
Exhibit Number	**Description**	**Filed Herewith**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**
3.1	Amended and Restated Certificate of Incorporation of Qualys, Inc.		S-1/A	333-182027	3.3	September 12, 2012
3.2	Amended and Restated Bylaws of Qualys, Inc.		S-1/A	333-182027	3.5	September 12, 2012
4.1	Form of common stock certificate.		S-1/A	333-182027	4.1	September 12, 2012
4.2	Description of Registrant's securities		10-K	001-35662	4.2	February 21, 2020
10.1*	2000 Equity Incentive Plan, as amended, and the form of stock option agreement thereunder.		S-1	333-182027	10.1	June 8, 2012
10.2*	2012 Equity Incentive Plan and forms of agreements thereunder.		S-1/A	333-182027	10.2	September 12, 2012
10.3*	Qualys, Inc. 2021 Employee Stock Purchase Plan		8-K	001-35662	10.1	June 11, 2020
10.4*	Offer Letter, between Qualys, Inc. and Sumedh S. Thakar, dated January 20, 2003.		S-1	333-182027	10.5	June 8, 2012
10.5*	Offer Letter, between Qualys, Inc. and Joo Mi Kim, dated May 21, 2020.		8-K	001-35662	10.1	May 26, 2020
10.6*	Offer Letter, between Qualys, Inc. and Bruce K. Posey, dated May 8, 2012.		S-1	333-182027	10.9	June 8, 2012
10.7*	Offer Letter, between Qualys, Inc. and Allan Peters, dated April 26, 2021.	X				
10.8*	Form of Performance-Based Restricted Stock Unit Agreement for Executives under the 2012 Equity Incentive Plan, dated October 28, 2021	X				
10.9*	Form of director and executive officer indemnification agreement.		S-1/A	333-182027	10.10	August 10, 2012

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Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date
10.10*	Qualys, Inc. Executive Performance Bonus Plan.		Schedule 14A, Appendix A	001-35662	N/A	April 25, 2016
10.11*#	Qualys, Inc. 2021 Corporate Bonus Plan.	X				
10.12	Lease Agreement, between Qualys, Inc. and Hudson Metro Center, LLC, dated October 14, 2016.		8-K	001-35662	10.1	October 19, 2016
10.13†	Manufacturing Services Agreement, between Qualys, Inc. and Synnex Corporation, dated March 1, 2011.		S-1/A	333-182027	10.16	September 12, 2012
21.1	List of subsidiaries of Qualys, Inc.	X				
23.1	Consent of Grant Thornton LLP, independent registered public accounting firm.	X				
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	X				
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.	X				
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	X				
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.	X				
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X				
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X				

Exhibit Number	Description	Filed Herewith	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	X				
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X				
104	Cover Page Interactive Data File—formatted in Inline XBRL and included as Exhibit 101	X				

* Indicates a management contract or compensatory plan or arrangement.

† Portions of this exhibit have been omitted due to a determination by the Securities and Exchange Commission that these portions should be granted confidential treatment.

\# Portions of the exhibit, marked by brackets, have been omitted because the omitted information (i) is not material and (ii) would likely cause competitive harm if publicly disclosed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Foster City, State of California on February 22, 2022.

QUALYS, INC.

By: /s/ SUMEDH THAKAR
Sumedh Thakar
President and Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated:

Signature	Title	Date
/s/ SUMEDH THAKAR Sumedh Thakar	Director, President and Chief Executive Officer (principal executive officer)	February 22, 2022
/s/ JOO MI KIM Joo Mi Kim	Chief Financial Officer (principal financial officer)	February 22, 2022
/s/ SAIKAT PAUL Saikat Paul	Chief Accounting Officer (principal accounting officer)	February 22, 2022
/s/ SANDRA BERGERON Sandra Bergeron	Chair of the Board of Directors	February 22, 2022
/s/ WILLIAM BERUTTI William Berutti	Director	February 22, 2022
/s/ JEFFREY P. HANK Jeffrey P. Hank	Director	February 22, 2022
/s/ GENERAL PETER PACE General Peter Pace	Director	February 22, 2022
/s/ KRISTI M. ROGERS Kristi M. Rogers	Director	February 22, 2022
/s/ WENDY M. PFEIFFER Wendy M. Pfeiffer	Director	February 22, 2022
/s/ JOHN A. ZANGARDI John A. Zangardi	Director	February 22, 2022

BOARD OF DIRECTORS

Sandra E. Bergeron
Chair of the Board, Qualys, Inc.
Board member of F5, Inc. and
Sumo Logic, Inc.

Bill Berutti
Former Chief Executive Officer of Plex
Systems, Inc.

Jeffrey P. Hank
Former Vice President of Finance and
Chief Accounting Officer of Intuit, Inc.

General Peter Pace
Principal at Pace Ventures LLC
Former Chairman of the Joint Chiefs of Staff

Wendy M. Pfeiffer
Senior Vice President and Chief Information
Officer of Nutanix, Inc.

Kristi M. Rogers
Managing Partner of Principal to Principal

Sumedh S. Thakar
President and Chief Executive Officer

John Zangardi
President and Chief Executive Officer of
Redhorse Corporation

CORPORATE EXECUTIVES

Sumedh S. Thakar
President and Chief Executive Officer

Joo Mi Kim
Chief Financial Officer

Allan Peters
Chief Revenue Officer

Bruce K. Posey
Chief Legal Officer and Corporate Secretary

CORPORATE HEADQUARTERS

Qualys, Inc.
919 E. Hillsdale Blvd.
Foster City, California 94404
T: (650) 801-6100
F: (650) 801-6101
www.qualys.com

COMMON STOCK LISTING

NASDAQ Stock Market
Ticker Symbol: QLYS

ANNUAL MEETING OF STOCKHOLDERS

Wednesday, June 8, 2022,
11:00 a.m. Pacific Daylight Time
Via live webcast at:
www.virtualshareholdermeeting.com/QLYS2022

REGISTRAR AND TRANSFER AGENT

For questions regarding your account, changes of address or the consolidation of accounts, please contact the Company's transfer agent:

Computershare Trust Company, N.A.
250 Royall Street
Canton, Massachusetts 02021
T: (800) 962-4284
Foreign Stockholders: (781) 575-3120
www.computershare.com/investor

LEGAL COUNSEL

Wilson Sonsini Goodrich & Rosati, P.C.
Palo Alto, California

INDEPENDENT AUDITORS

Grant Thornton LLP
San Jose, California

INVESTOR RELATIONS

Qualys, Inc.
Investor Relations
919 E. Hillsdale Blvd.
Foster City, California 94404
E: ir@qualys.com
T: (650) 801-6100

Qualys.