Springleaf Holdings, Inc.
Form 8-K/A
March 16, 2015

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

FORM 8-K/A

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

DATE OF REPORT (Date of earliest event reported): May 30, 2014 (May 28, 2014)

Springleaf Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-36129	27-3379612
State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

601 N.W. Second Street,
Evansville, Indiana 47708
(Address of principal executive offices)(Zip Code)
(812) 424-8031
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

This current report on Form 8-K/A (this “Amendment”) updates information originally provided under Item 5.07 in a Current Report on Form 8-K filed on May 30, 2014 (the “Original Filing”), in which Springleaf Holdings, Inc. (the “Company”) reported voting results for its 2014 annual meeting of stockholders held on May 28, 2014 (the “2014 Annual Meeting”), including the voting results for both the Company’s non-binding stockholder advisory vote on the compensation of the Company’s named executive officers (the “Say-On-Pay Vote”) and the Company’s non-binding stockholder advisory vote regarding the frequency of future Say-On-Pay Votes. Except as set forth below, this Amendment does not modify or update any other disclosure contained in the Original Filing, and this Amendment should be read in conjunction with the Original Filing.

Item 5.07 Submission of Matters to a Vote of Security Holders.

As previously reported, at the 2014 Annual Meeting, the option regarding the frequency of future Say-On-Pay Votes that received the highest number of votes from the Company’s stockholders was once every three years, as recommended by the Company’s Board of Directors. In light of these results, the Company has determined to hold its Say-On-Pay Votes once every three years, until the next required non-binding stockholder advisory vote on the frequency of future Say-On-Pay Votes.

Signatures

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

		SPRINGLEAF HOLDINGS, INC. (Registrant)
Date: March 16, 2015	By:	/s/ Minchung (Macrina) Kgil Minchung (Macrina) Kgil Executive Vice President and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
Qualys, Inc.

We have audited the accompanying consolidated balance sheets of Qualys, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive income, cash flows and convertible preferred stock and stockholders' equity (deficit) for each of the three years in the period ended December 31, 2014. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Qualys, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP
San Francisco, California
March 6, 2015

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Qualys, Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$76,504	$42,369
Short-term investments	50,714	54,827
Accounts receivable, net of allowance of $590 and $389 at December 31, 2014 and 2013, respectively	32,993	28,581
Deferred tax assets, current	8,520	114
Prepaid expenses and other current assets	6,528	4,565
Total current assets	175,259	130,456
Long-term investments	39,448	35,608
Property and equipment, net	26,618	23,075
Deferred tax assets, net	14,119	72
Intangible assets, net	2,001	2,394
Goodwill	317	317
Other noncurrent assets	2,262	681
Total assets	$260,024	$192,603
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$5,661	$1,930
Accrued liabilities	10,353	9,037
Deferred revenues, current	81,147	67,505
Capital lease obligations, current	—	805
Total current liabilities	97,161	79,277
Deferred revenues, noncurrent	10,064	8,889
Other noncurrent liabilities	972	1,320
Total liabilities	108,197	89,486
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock: $0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding at December 31, 2014 and 2013	—	—
Common stock, $0.001 par value; 1,000,000,000 shares authorized, 33,594,285 and 32,375,299 shares issued and outstanding at December 31, 2014 and 2013, respectively	34	32
Additional paid-in capital	195,133	176,641
Accumulated other comprehensive income	10	38
Accumulated deficit	(43,350)	(73,594)
Total stockholders' equity	151,827	103,117
Total liabilities and stockholders' equity	$260,024	$192,603

See accompanying Notes to Consolidated Financial Statements

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Qualys, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2014	2013	2012
Revenues	$133,579	$107,962	$91,420
Cost of revenues	28,963	24,660	18,404
Gross profit	104,616	83,302	73,016
Operating expenses:			
Research and development	26,320	21,678	20,195
Sales and marketing	48,049	42,523	37,738
General and administrative	21,000	16,792	12,079
Total operating expenses	95,369	80,993	70,012
Income from operations	9,247	2,309	3,004
Other income (expense), net:			
Interest expense	(9)	(43)	(192)
Interest income	452	375	14
Other income (expense), net	(1,077)	(600)	(247)
Total other income (expense), net	(634)	(268)	(425)
Income before income taxes	8,613	2,041	2,579
(Benefit from) provision for income taxes	(21,631)	500	358
Net income	$30,244	$1,541	$2,221
Net income attributable to common stockholders	$30,244	$1,539	$1,049
Net income per share attributable to common stockholders:			
Basic	$0.92	$0.05	$0.09
Diluted	$0.81	$0.04	$0.08
Weighted average shares used in computing net income per share attributable to common stockholders:			
Basic	32,979	31,914	11,891
Diluted	37,170	35,973	28,352

See accompanying Notes to Consolidated Financial Statements

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Qualys, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Net income	$30,244	$1,541	$2,221
Available-for-sale investments:			
Change in net unrealized gain on investments, net of zero tax	—	38	8
Less: reclassification adjustment for net realized gain included in net income	(28)	(8)	—
Net change, net of zero tax	(28)	30	8
Other comprehensive income (loss), net	(28)	30	8
Comprehensive income	$30,216	$1,571	$2,229

See accompanying Notes to Consolidated Financial Statements

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Qualys, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$30,244	$1,541	$2,221
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	11,897	9,612	7,341
Bad debt expense	470	307	218
Loss on disposal of property and equipment	324	12	10
Stock-based compensation	10,549	5,506	3,452
Non-cash interest expense	—	—	24
Amortization of premiums and accretion of discounts on investments	565	282	7
Excess tax benefits from stock-based compensation	(259)	(150)	—
Deferred income taxes	(22,599)	(66)	27
Changes in operating assets and liabilities:			
Accounts receivable	(4,882)	(4,343)	(4,014)
Prepaid expenses and other assets	(3,456)	610	136
Accounts payable	2,332	(100)	(223)
Accrued liabilities	1,622	437	(972)
Deferred revenues	14,817	11,281	13,683
Other noncurrent liabilities	(201)	152	14
Net cash provided by operating activities	41,423	25,081	21,924
Cash flows from investing activities:			
Purchases of investments	(157,660)	(145,263)	(83,547)
Sales and maturities of investments	157,339	138,124	—
Purchases of property and equipment	(13,914)	(13,650)	(11,200)
Capitalized software development costs	(98)	—	—
Release of restricted cash	—	114	—
Purchases of intangible assets	—	—	(49)
Net cash used in investing activities	(14,333)	(20,675)	(94,796)
Cash flows from financing activities:			
Proceeds from initial public offering, net of offering costs	—	—	84,534
Proceeds from exercise of stock options	7,639	4,073	1,685
Proceeds from early exercise of stock options	—	40	384
Excess tax benefits from stock-based compensation	259	150	—
Principal payments under capital lease obligations	(805)	(1,186)	(2,401)
Non-contingent payment related to acquisition	—	—	(1,000)
Net cash provided by financing activities	7,093	3,077	83,202
Effect of exchange rate changes on cash and cash equivalents	(48)	1	7
Net increase in cash and cash equivalents	34,135	7,484	10,337
Cash and cash equivalents at beginning of period	42,369	34,885	24,548
Cash and cash equivalents at end of period	$76,504	$42,369	$34,885
Supplemental disclosures of cash flow information			
Cash paid for interest expense	$9	$43	$162

Cash paid for income taxes, net of refunds	347	390	299
Non-cash investing and financing activities			
Purchases of property and equipment recorded in accounts payable and accrued liabilities	1,399	487	—
Vesting of early exercised common stock options	47	262	155
Conversion of convertible preferred stock to common stock	—	—	63,873
Issuance of common stock for acquisition of license	—	—	51

See accompanying Notes to Consolidated Financial Statements

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Qualys, Inc.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK
AND STOCKHOLDERS' EQUITY (DEFICIT)
(in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2011	17,597,258	$ 63,873	5,300,288	$ 5	$ 12,927	$ —	$ (77,356)	$ (64,424)
Net income	—	—	—	—	—	—	2,221	2,221
Change in unrealized gain (loss) on short-term investments	—	—	—	—	—	8	—	8
Issuance of common stock upon initial public offering, net of offering costs	—	—	7,836,250	8	84,526	—	—	84,534
Conversion of preferred stock to common stock upon initial public offering	(17,597,258)	(63,873)	17,597,258	17	63,856	—	—	63,873
Issuance of common stock upon exercise of stock options	—	—	724,316	1	1,684	—	—	1,685
Vesting of early exercised common stock options	—	—	—	—	155	—	—	155
Repurchase of unvested early exercised stock options	—	—	(60,126)	—	—	—	—	—
Issuance of common stock in exchange for services	—	—	15,945	—	45	—	—	45
Issuance of common stock for acquisition of license	—	—	6,097	—	51	—	—	51
Stock-based compensation	—	—	—	—	3,407	—	—	3,407
Balances at December 31, 2012	—	—	31,420,028	31	166,651	8	(75,135)	91,555
Net income	—	—	—	—	—	—	1,541	1,541
Change in unrealized gain (loss) on investments	—	—	—	—	—	30	—	30
Issuance of common stock upon exercise of	—	—	952,871	1	4,072	—	—	4,073

stock options								
Vesting of early exercised common stock options	—	—	—	—	262	—	—	262
Excess tax benefits from stock-based compensation	—	—	—	—	150	—	—	150
Repurchase of unvested early exercised stock options	—	—	(500)	—	—	—	—	—
Issuance of common stock in exchange for services	—	—	2,900	—	41	—	—	41
Stock-based compensation	—	—	—	—	5,465	—	—	5,465
Balances at December 31, 2013	—	—	32,375,299	32	176,641	38	(73,594)	103,117
Net income	—	—	—	—	—	—	30,244	30,244
Change in unrealized gain (loss) on investments	—	—	—	—	—	(28)	—	(28)
Issuance of common stock upon exercise of stock options	—	—	1,216,710	2	7,637	—	—	7,639
Vesting of early exercised common stock options	—	—	—	—	47	—	—	47
Excess tax benefits from stock-based compensation	—	—	—	—	259	—	—	259
Repurchase of unvested early exercised stock options		—	(125)	—	—	—	—	—
Issuance of common stock in exchange for services	—	—	2,401	—	50	—	—	50
Stock-based compensation	—	—	—	—	10,499	—	—	10,499
Balances at December 31, 2014	—	$—	33,594,285	$ 34	$ 195,133	$ 10	$ (43,350)	$ 151,827

See accompanying Notes to 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”) was incorporated in the state of Delaware on December 30, 1999. The Company is headquartered in Redwood City, California and has majority-owned subsidiaries throughout the world. The Company is a pioneer and leading provider of cloud security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber attacks and achieve compliance with internal policies and external regulations. The Company’s cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing and the proliferation of geographically dispersed IT assets. Organizations can use the Company’s integrated suite of solutions delivered on its QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

Initial Public Offering
On October 3, 2012, the Company closed its initial public offering ("IPO") of 8,711,250 shares of common stock at an offering price of $12.00 per share. The offering included 7,836,250 shares sold and issued by the Company and 875,000 shares sold by selling stockholders. The shares sold in the offering included 1,136,250 shares sold by the Company pursuant to the underwriters’ full exercise of their over-allotment option. The net proceeds to the Company from the offering were approximately $87.5 million after deducting underwriting discounts and commissions, and before deducting total expenses in connection with this offering of $2.9 million. Immediately prior to the closing, all of the Company’s 17,597,258 outstanding shares of convertible preferred stock converted into an equivalent number of shares of common stock. The related carrying value of the convertible preferred stock of $63.9 million was reclassified to common stock and additional paid-in capital at the time of the conversion.

Basis of Presentation
The accompanying consolidated financial statements and footnotes have been prepared by the Company in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) as well as the instructions to Form 10-K and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). In the opinion of management, the accompanying consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s consolidated financial position, results of operations and cash flows for the periods presented. The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Certain prior year amounts related to income taxes have been reclassified to conform to the current year presentation. These reclassifications did not change previously reported total assets, liabilities, convertible preferred stock, stockholders' equity (deficit), income from operations or net income.

Correction of Immaterial Error
During the fourth quarter of 2014, the Company identified an immaterial error in the financial statements of its foreign subsidiaries reporting in the applicable local foreign currencies as their functional currencies, resulting in translation adjustments included as a component of accumulated other comprehensive income (loss) in stockholders' equity. It was determined that the functional currency for the Company's local subsidiaries should be the U.S. dollar. Accordingly, remeasurement gains and losses on monetary assets and liabilities denominated in foreign currencies

should be recorded to foreign exchange gains and losses in other income (expense) in the consolidated statements of operations in accordance with GAAP.

The Company reviewed the accounting error utilizing SEC Staff Accounting Bulletin No. 99, “Materiality” and SEC Staff Accounting Bulletin No. 108, “Effects of Prior Year Misstatements on Current Year Financial Statements.” Management evaluated the materiality of this error from a qualitative and quantitative perspective and determined

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the impact of the errors did not have a material impact on any individual prior period presentation or affect the trend of financial results. However, because the adjustment to correct the cumulative error on the consolidated balance sheets and statements of stockholders' equity would have had a material effect to the Company's consolidated statements of operations for the year ended December 31, 2014, the Company has revised its previously reported financial statements for the 2012 and 2013 annual periods to reflect the impact of the immaterial errors that have been corrected.

The following table summarizes the correction of previously reported amounts presented in the accompanying consolidated financial statements (in thousands, expect per share data):

	Year Ended December 31,			
	2013		2012	
	as reported	as adjusted	as reported	as adjusted
Consolidated Statements of Operations:				
Other income (expense), net	$(517)	$(600)	$(188)	$(247)
Total other income (expense), net	(185)	(268)	(366)	(425)
Net income	1,624	1,541	2,280	2,221
Net income per share attributable to common stockholders:				
Basic	0.05	0.05	0.09	0.09
Diluted	0.05	0.04	0.08	0.08
Consolidated Statements of Comprehensive Income:				
Change in foreign currency translation gain (loss), net of zero tax	(83)	—	(59)	—
Comprehensive Income	1,571	1,571	2,229	2,229
Consolidated Statements of Cash Flows:				
Net cash provided by operating activities	25,146	25,081	21,952	21,924
Net cash used in investing activities	(20,688)	(20,675)	(94,784)	(94,796)
Effect of exchange rate changes on cash and cash equivalents	(51)	1	(33)	7
Net increase in cash and cash equivalents	7,484	7,484	10,337	10,337

	December 31,			
	2013		2012	
	as reported	as adjusted	as reported	as adjusted
Consolidated Balance Sheets:				
Accumulated other comprehensive income (loss)	$(1,088)	$38	$(1,035)	$8
Accumulated deficit	(72,468)	(73,594)	(74,092)	(75,135)
Total stockholders' equity	103,117	103,117	91,555	91,555

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2013 as reported	2013 as adjusted	2012 as reported	2012 as adjusted	2011 as reported	2011 as adjusted
Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit):						
Accumulated other comprehensive income (loss)	$(1,088)	$38	$(1,035)	$8	$(984)	$—
Accumulated deficit	(72,468)	(73,594)	(74,092)	(75,135)	(76,372)	(77,356)
Total stockholders' equity (deficit)	103,117	103,117	91,555	91,555	(64,424)	(64,424)

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting period. The Company’s management regularly assesses these estimates, which primarily affect revenue recognition, the valuation of accounts receivable, goodwill and intangible assets, common stock, stock-based compensation and the valuation allowances associated with deferred tax assets. Actual results could differ from those estimates and such differences may be material to the accompanying consolidated financial statements.

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. In addition, the Company’s credit risk is mitigated by the relatively short collection period. Collateral is not required for accounts receivable. The Company maintains an allowance for potential credit losses based upon the expected collectability of accounts receivable. The Company writes off its receivables when collectability is deemed to be doubtful. As of December 31, 2014 and 2013, no customer or channel partner accounted for more than 10% of the Company's accounts receivable balance.

Cash, Cash Equivalents, Short-Term and Long-Term Investments

Cash and cash equivalents include cash held in banks and highly liquid money market funds, commercial paper, and fixed-income U.S. government agency securities, all with original maturities of three months or less when acquired. The Company’s investments consist of fixed-income U.S. government agency securities, corporate bonds, municipal 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 investments as either short-term or long-term based on each instrument's underlying contractual maturity date.

Cash equivalents are stated at cost, which approximates fair market value. Short-term and long-term investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses in fair value are reported in other comprehensive income (loss). When the available-for-sale securities are sold, cost is based on the specific identification method, and the realized gains and losses are included in other income (expense) in the consolidated statements of operations. Short-term and long-term investments are reviewed quarterly for impairment that is deemed to be other-than-temporary. An investment is considered other-than-temporarily impaired when its fair value is below its amortized cost and (1) there is an intent to sell the security, (2) it is "more likely than not" that the security will be sold before recovery of its amortized cost basis or (3) the present value of expected cash flows from the investment is not expected to recover the entire amortized cost basis. Declines in value that are considered to be other-than-temporary and adjustments to amortized cost for the

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amortization of premiums and the accretion of discounts are recorded in other income (expense). Interest and dividends are recorded in interest income as earned.

Accounts Receivable

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

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

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

The Company purchases physical scanner appliances and other computer equipment that are provided on a subscription basis. This equipment is recorded within property and equipment on the accompanying consolidated balance sheet, and the depreciation is recorded to cost of revenues over an estimated useful life of three years.

Upon retirement or disposal, the cost of assets and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations. Repairs and maintenance that do not extend the life of an asset are expensed as incurred and major improvements are capitalized as property and equipment.

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. As of December 31, 2014 and 2013, the Company has not written down any of its long-lived assets as a result of impairment.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination and is not subject to amortization. Goodwill and other intangible assets with indefinite lives are not amortized, but tested for impairment annually or if certain circumstances indicate a possible impairment may exist. These tests are performed at the reporting unit level. The Company’s operations are organized as one reporting unit.

In testing for a potential impairment of goodwill, the Company first performs a qualitative assessment of its reporting unit to determine if it is more likely than not (a more than 50% likelihood) that the fair value of the reporting unit is less than its carrying amount. If the fair value is not considered to be less than the carrying amount, no further evaluation is necessary. The Company performed the annual qualitative assessment for the year ended December 31, 2014 and concluded there was no impairment of goodwill.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In testing for a potential impairment of intangible assets with indefinite lives that are not subject to amortization, the Company first performs a qualitative assessment to determine if it is more likely than not (a more than 50% likelihood) that the fair value of the indefinite-lived intangible assets is less than the carrying amount. If the fair value is not considered to be less than the carrying amount, no further evaluation is necessary. The Company performed the annual qualitative assessment as of December 31, 2014 and concluded there was no impairment of the indefinite-lived intangible assets.

If the qualitative assessment indicates there is more than a 50% likelihood that the fair value is less than the carrying amount, the Company would perform a two-step test. In the first step, the carrying value of the reporting unit or intangible asset is compared to its estimated fair value. If the estimated fair value is less than the carrying value, then potential impairment exists. In the second step, for goodwill, the Company calculates the amount of any impairment by determining the implied fair value of goodwill using a hypothetical purchase price allocation, similar to that which would be applied if it were an acquisition and the purchase price was equivalent to fair value as calculated in the first step. Impairment is equivalent to any excess of goodwill carrying value over its implied fair value. For indefinite-lived intangible assets, the Company performs the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value.

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

Software Development Costs
The Company capitalizes qualifying software costs developed or obtained for internal use. These costs generally include internal costs, such as payroll and benefits of those employees directly associated with the development of the software, and other consulting expenses. During the year ended December 31, 2014, the Company capitalized software development costs of $0.1 million. No costs were capitalized during the year ended December 31, 2013. Total capitalized development costs are $0.4 million and $0.3 million at December 31, 2014 and 2013, respectively, and the related accumulated amortization is $0.3 million at both December 31, 2014 and 2013.

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

At December 31, 2014, the Company had two outstanding forward contracts with notional amounts of 6.0 million Euros and 2.1 million British Pounds, which expired on on January 31, 2015. At December 31, 2013, the Company had two outstanding forward contracts with notional amounts of 6.3 million Euros and 2.0 million British Pounds, which expired on January 31, 2014. These forward contracts were entered into as of December 31, 2014 and 2013, respectively, and thus the fair value of the contracts was $0 at both December 31, 2014 and 2013. In 2014, the

Company recorded a net gain of $0.7 million from forward contracts, which was offset by foreign currency transaction losses of $1.4 million for the year. In 2013, the Company recorded a net loss of $0.8 million from forward contracts, which was partially offset by foreign currency transaction gains of $0.2 million for the year. These derivatives did not meet the criteria to be designated as hedges.

Stock-Based Compensation

The Company recognizes stock-based compensation expense for its employee stock options over the requisite service period for awards of equity instruments based on the grant-date fair value of those awards expected to vest.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Forfeitures are estimated on the date of grant and revised if actual or expected forfeiture activity differs materially from original estimates.

Option grants to non-employees are accounted for at the fair value of the equity instrument issued, as calculated using the Black-Scholes option-pricing model and the expense is recognized over the vesting periods of the options. The value of options granted to non-employees is remeasured as they vest over a performance period.

Revenue Recognition
The Company derives revenues from subscriptions that require customers to pay a fee in order to access the Company's cloud solutions. Customers generally enter into one year renewable subscriptions. The subscription fee entitles the customer to an unlimited number of scans for a specified number of networked devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. The Company's physical and virtual scanner appliances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for the Company's solutions. In some limited cases, the Company also provides certain computer equipment used to extend its QualysGuard 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 recognizes revenues when all of the following conditions are met:

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

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

Deferred revenues consist of revenues billed or received that will be recognized in the future under subscriptions existing at the balance sheet date. The current portion of deferred revenues represents amounts that are expected to be recognized within one year of the balance sheet date.

Costs of shipping and handling charges incurred by the Company associated with physical scanner appliances and other computer equipment are included in cost of revenues.

Sales taxes and other taxes collected from customers to be remitted to government authorities are excluded from revenues.

Advertising Expenses
Advertising costs are expensed as incurred and include costs of advertising, trade show costs and promotional materials. The Company incurred advertising costs of $5.3 million, $4.2 million, and $4.3 million for 2014, 2013 and

2012, respectively.

Income Taxes

The Company uses the asset and liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using statutory tax rates and laws that will be in effect

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

when the differences are expected to reverse. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists of unrealized gains (losses) on available-for-sale investments, net of tax, 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 remeasured into U.S. dollars using the exchange rates in effect at the balance sheet date, and income and expenses are remeasured at average exchange rates during the period. Foreign currency remeasurement gains and losses and foreign currency transaction gains and losses are recognized in other income (expense), net. The Company recorded total foreign currency transaction losses of $(0.7) million, $(0.7) million and $(0.2) million during 2014, 2013 and 2012, respectively.

Fair Value Measurements

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 other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

The Company measures and reports certain cash equivalents, investments and derivative foreign currency forward contracts at fair value in accordance with the provisions of the authoritative accounting guidance that addresses fair value measurements. This guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2—Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Valuations based on inputs that are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments consist of assets 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. government agency securities, commercial paper, corporate bonds, municipal bonds and asset-backed securities and derivative financial

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 in active markets for similar instruments or on 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. See Note 2 for more information regarding the fair value measurement of the Company's financial instruments.

Net Income Per Share Attributable to Common Stockholders
The Company computes net income attributable to common stockholders using the two-class method required for participating securities. Convertible preferred stock and common stock subject to repurchase resulting from the early exercise of stock options are considered to be participating securities since they contain non-forfeitable rights to dividends or dividend equivalents in the event the Company declares a dividend for common stock. In accordance with the two-class method, earnings allocated to these participating securities are subtracted from net income after deducting preferred stock dividends, if any, to determine total undistributed earnings to be allocated to common stockholders. The holders of convertible preferred stock did not have a contractual obligation to share in net losses and such shares were excluded from the computation of basic earnings per share in periods of net loss.

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

Recent Accounting Pronouncements

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

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) that provides guidance on the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement in this manner is available under the tax law. The Company adopted this standard in 2014 and the adoption of this standard did not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued an ASU amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption prohibited. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In January 2015, the FASB issued an ASU eliminating from U.S. GAAP the concept of extraordinary items, which required that an entity separately classify, present, and disclose extraordinary events and transactions. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15,

2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

Reverse Stock Split

In September 2012, the Company’s board of directors and stockholders approved an amendment to the Company’s amended and restated certificate of incorporation effecting a one-for-ten reverse stock split of the Company’s issued and outstanding shares of common and convertible preferred stock. The par value of the common and convertible preferred stock was not adjusted as a result of the reverse stock split. All issued and outstanding common stock, convertible preferred stock, warrants for convertible preferred stock, options for common stock, contingently issuable shares of common stock and per share amounts contained in the Company’s consolidated financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. Fair Value of Financial Instruments

The Company's cash and cash equivalents, short-term investments, and long-term investments consist of the following:

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$36,024	$—	$—	$36,024
Money market funds	39,180	—	—	39,180
U.S. government agencies	300	—	—	300
Commercial paper	1,000	—	—	1,000
Total	76,504	—	—	76,504
Short-term investments:				
Commercial paper	4,998	1	—	4,999
Corporate bonds	12,438	6	(6)	12,438
U.S. government agencies	33,280	3	(6)	33,277
Total	50,716	10	(12)	50,714
Long-term investments:				
Asset-backed securities	16,092	5	(3)	16,094
U.S. government agencies	20,243	22	(10)	20,255
Corporate bonds	3,101	—	(2)	3,099
Total	39,436	27	(15)	39,448
Total	$166,656	$37	$(27)	$166,666

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$27,488	$—	$—	$27,488
Money market funds	183	—	—	183
Commercial paper	14,697	1	—	14,698
Total	42,368	1	—	42,369
Short-term investments:				
Commercial paper	32,784	6	—	32,790
Corporate bonds	16,894	11	—	16,905
Municipal bonds	1,128	—	—	1,128
U.S. government agencies	4,004	—	—	4,004
Total	54,810	17	—	54,827
Long-term investments:				
Asset-backed securities	5,497	4	—	5,501
U.S. government agencies	14,835	1	(3)	14,833
Corporate bonds	15,256	22	(4)	15,274
Total	35,588	27	(7)	35,608
Total	$132,766	$45	$(7)	$132,804

The following table sets forth by level within the fair value hierarchy the fair value of the Company's available-for-sale securities measured on a recurring basis, excluding cash and money market funds:

	December 31, 2014			
	Level 1	Level 2	Level 3	Fair Value
	(in thousands)			
Commercial paper	$—	$5,999	$—	$5,999
U.S. government agencies	—	53,832	—	53,832
Corporate bonds	—	15,537	—	15,537
Asset-backed securities	—	16,094	—	16,094
Total	$—	$91,462	$—	$91,462

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2013			
	Level 1	Level 2	Level 3	Fair Value
	(in thousands)			
Commercial paper	$—	$47,488	$—	$47,488
U.S. government agencies	—	18,837	—	18,837
Municipal bonds	—	1,128	—	1,128
Corporate bonds	—	32,179	—	32,179
Asset-backed securities	—	5,501	—	5,501
Total	$—	$105,133	$—	$105,133

The following summarizes the fair value of securities classified as available-for-sale by contractual maturity:

	December 31, 2014			
	Mature within One Year	After One Year through Two Years	Over Two Years	Fair Value
	(in thousands)			
Commercial paper	$5,999	$—	$—	$5,999
U.S. government agencies	33,577	20,255	—	53,832
Corporate bonds	12,438	3,099	—	15,537
Asset-backed securities	—	7,327	8,767	16,094
Total	$52,014	$30,681	$8,767	$91,462

	December 31, 2013			
	Mature within One Year	After One Year through Two Years	Over Two Years	Fair Value
	(in thousands)			
Commercial paper	$47,488	$—	$—	$47,488
U.S. government agencies	4,004	14,833	—	18,837
Municipal bonds	1,128	—	—	1,128
Corporate bonds	16,905	15,274	—	32,179
Asset-backed securities	—	—	5,501	5,501
Total	$69,525	$30,107	$5,501	$105,133

At December 31, 2014 and 2013, derivative financial instruments, consisting of foreign currency forward contracts, were valued at $0 as the contracts were entered into on the last day of the respective reporting periods. These instruments were valued using Level 2 inputs.

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy, as determined at the end of each reporting period.

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. Property and Equipment, Net

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

	December 31,	
	2014	2013
	(in thousands)	
Computer equipment	$35,576	$27,464
Computer software	10,899	9,277
Furniture, fixtures and equipment	2,931	2,031
Scanner appliances	19,861	17,055
Leasehold improvements	2,622	2,100
Total property and equipment	71,889	57,927
Less: accumulated depreciation and amortization	(45,271)	(34,852)
Property and equipment, net	$26,618	$23,075

There were no assets under capital lease at December 31, 2014. Assets held under capital lease at December 31, 2013 included in computer software totaled approximately $3.1 million, and the related accumulated depreciation totaled $1.2 million.

Physical scanner appliances and other computer equipment that are or will be subject to subscriptions by customers have a net carrying value of $6.0 million and $4.7 million at December 31, 2014 and 2013, respectively, including assets that have not been placed in service of $1.4 million and $0.6 million, respectively. Other fixed assets not placed in service at December 31, 2014 and 2013, included in computer equipment and leasehold improvements, were $2.8 million and $1.6 million, respectively. Depreciation and amortization expense relating to property and equipment, including capitalized leases, was $11.5 million, $9.2 million and $6.9 million for 2014, 2013 and 2012, respectively.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. Business Combination

On August 31, 2010, the Company acquired Nemean Networks, LLC ("Nemean"), a company developing network security solutions for detection and awareness of external intrusions to computer networks. The Company acquired Nemean to provide additional solutions on its cloud platform. The consideration for this acquisition consisted of $3.7 million in cash and common stock, including a non-contingent payment of $1.0 million in cash and 6,250 shares of common stock, both of which occurred in September 2012. The Company accounted for this transaction as a business combination.

NOTE 5. Goodwill and Intangible Assets, Net

Intangible assets consist primarily of existing technology, patent license and non-competition agreements acquired in business combinations. Acquired intangibles are amortized on a straight-line basis over the respective estimated useful lives of the assets.

The carrying values of intangible assets are as follows (in thousands):

			December 31, 2014		2013	
	Estimated Lives	Cost	Accumulated Amortization	Net Book Value	Accumulated Amortization	Net Book Value
Existing technology	7 years	$1,910	$(1,183)	$727	$(909)	$1,001
Patent license	14 years	1,388	(422)	966	(323)	1,065
Non-competition agreements and other	3 years	171	(158)	13	(138)	33
Total intangibles subject to amortization		$3,469	$(1,763)	1,706	$(1,370)	2,099
Intangible assets not subject to amortization				295		295
Total intangible assets, net				$2,001		$2,394

Intangibles amortization expense for each of 2014, 2013 and 2012 was $0.4 million.

As of December 31, 2014, the Company expects amortization expense in future periods to be as follows (in thousands):

2015	$386
2016	373
2017	282
2018	100
2019	100
2020 and thereafter	465
Total expected future amortization expense	$1,706

Goodwill, which is not subject to amortization, totaled $0.3 million as of December 31, 2014 and 2013.

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. Commitments and Contingencies

Leases
The Company leases certain computer equipment and its corporate office and data center facilities under noncancelable operating leases for varying periods through 2019.

In 2011, the Company entered into a $3.1 million financing arrangement for computer software, accounted for as a capital lease, with minimum quarterly payments scheduled through 2014. The capital lease obligation had an interest rate of 1.8% and was secured by the related computer equipment software. In connection with this transaction, the Company also had minimum obligations for related maintenance and support. Minimum obligations were $0.3 million at December 31, 2013 and were recorded in current liabilities in the accompanying consolidated balance sheet. There were no remaining capital lease obligations as of December 31, 2014.

The following are the minimum annual lease payments due under operating leases at December 31, 2014:

	Operating Leases (in thousands)
2015	$4,409
2016	3,046
2017	1,830
2018	439
2019	226
Total minimum lease payments	$9,950

Rent expense was $6.2 million, $5.4 million and $4.3 million for 2014, 2013 and 2012, respectively. Although certain of the operating lease agreements provide for escalating rent payments over the terms of the leases, rent expense under these agreements is recognized on a straight-line basis. As of December 31, 2014 and 2013, the Company has accrued $0.5 million and $0.6 million, respectively, of deferred rent related to these agreements, which is reflected in accrued liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets.

Sales and Other Taxes
The Company’s software-as-a-service solutions are subject to sales and other taxes in certain jurisdictions where the Company does business. The Company bills sales and other taxes to customers and remits these to the respective government authorities. For those jurisdictions where the Company has not yet billed sales tax to its customers and believes it is probable it may have exposure and can reasonably estimate such exposure, it has recorded a liability of $0.5 million at each of December 31, 2014 and 2013, which is recorded within accrued liabilities in the consolidated balance sheets. However, taxing jurisdictions have differing rules and regulations, which are subject to varying interpretations that may change over time. Other than the liability that the Company has accrued in its consolidated balance sheets, the Company has been unable to assess the probability, or estimate the amount, of its sales tax exposure, if any. There are no pending reviews at December 31, 2014 of which the outcome is expected to result in sales and other taxes due in excess of accrued liabilities. Management does not anticipate that its sales tax exposure, if any, would have a material adverse effect on the financial position, results of operations or cash flows of the Company.

Indemnifications

The Company from time to time enters into certain types of contracts that contingently require it to indemnify various parties against claims from third parties. These contracts primarily relate to (i) the Company's by-laws, under which it must indemnify directors and executive officers, and may indemnify other officers and employees, for liabilities arising out of their relationship, (ii) contracts under which the Company must indemnify directors and certain officers for liabilities arising out of their relationship, and (iii) contracts under which the Company may be required to indemnify customers or resellers from certain liabilities arising from potential infringement of intellectual property rights, as well as potential damages caused by limited product defects. To date, the Company has not incurred and has not recorded any liability in connection with such indemnifications.

The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors.

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a liability for such matters when it is probable a loss has been incurred and such loss can be reasonably estimated. At December 31, 2014, the Company has not recorded any material liabilities in accordance with accounting for contingencies.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. Stockholders' Equity

Common Stock

The Company had reserved shares of common stock for future issuance as of December 31, 2014:

Options outstanding under equity incentive plans	
2000 Equity Incentive Plan [(1)]	3,970,662
2012 Equity Incentive Plan [(1)]	3,634,745
Shares available for future grants under an equity incentive plan	
2012 Equity Incentive Plan [(1)]	803,630
Total shares reserved for future issuance	8,409,037

(1) See Note 8 for a description of these plans.

Preferred Stock
Effective October 3, 2012, the Company is authorized to issue 20,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. Each series of preferred stock will have such rights and preferences including dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price, and liquidation preferences as determined by the Board. As of December 31, 2014 and 2013, there are no issued or outstanding shares of preferred stock.

NOTE 8. Employee Stock and Benefit Plans

Stock Options

2012 Equity Incentive Plan

The 2012 Equity Incentive Plan (the "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 participants incentive stock options (“ISOs”), nonstatutory stock options (“NSOs”), stock appreciation rights ("SARs"), restricted stock awards ("RSAs"), restricted stock units ("RSUs"), performance units and performance shares equivalent to up to 4,668,764 shares of common stock as of December 31, 2014. The number of shares of common stock available for issuance under the 2012 Plan includes an annual increase on January 1 of each year by an amount equal to the least of 3,050,000 shares; 5% of the outstanding shares of stock as of the last day of the immediately preceding fiscal year; or an amount determined by the board of directors. Options may be granted with an exercise price that is at least equal to the fair market value of the Company's stock at the date of grant and are exercisable when vested. Options granted generally vest over a period of up to four years, with a maximum term of ten 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, RSAs, 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. As of December 31, 2014, 803,630 shares were available for grant under the 2012 Plan.

2000 Equity Incentive Plan

Under the 2000 Equity Incentive Plan (the "2000 Plan"), the Company was authorized to grant to eligible participants either ISOs or NSOs. The ISOs were granted at a price per share not less than the fair market value at the date of grant. The NSOs were granted at a price per share not less than 85% of the fair market value at the date of grant. Options granted generally vest over a period of up to four years, with a maximum term of ten years. The 2000 Plan was terminated in connection with the closing of the IPO, and accordingly, no shares are currently available for issuance under the 2000 Plan. The 2000 Plan continues to govern outstanding awards granted thereunder.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options granted under the 2000 Plan were immediately exercisable, and unvested shares are subject to repurchase by the Company. Upon termination of employment of an option holder, the Company has the right to repurchase at the original purchase price any issued but unvested common shares. The amounts paid for shares purchased under an early exercise of stock options and subject to repurchase by the Company are not reported as a component of stockholders' equity (deficit) until those shares vest. The amounts received in exchange for these shares are recorded as an accrued liability in the accompanying consolidated balance sheets and will be reclassified to common stock and additional paid-in capital as the shares vest.

Employee Stock-based Compensation

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cost of revenues	$757	$421	$272
Research and development	2,463	1,038	649
Sales and marketing	2,394	1,244	993
General and administrative	4,217	1,842	1,008
Total stock-based employee compensation	$9,831	$4,545	$2,922

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

As of December 31, 2014, the Company had $27.1 million of total unrecognized employee compensation cost related to nonvested awards that it expects to recognize over a weighted-average period of 2 years.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31,		
	2014	2013	2012
Expected term (in years)	5.3 to 5.9	5.4 to 6.1	5.3 to 6.1
Volatility	48% to 52%	52% to 53%	52% to 53%
Risk-free interest rate	1.5% to 1.7%	0.7% to 1.5%	0.6% to 0.9%
Dividend yield	—	—	—

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected term at the grant date. Volatility is based on historical volatility of several public entities that are similar to the Company, as the Company does not have sufficient historical transactions in its own shares on which to base expected volatility. The Company has not historically issued any dividends and does not expect to in the future.

Non-Employee Stock-based Compensation

The Company records compensation representing the fair value of stock options granted to non-employees. Stock-based non-employee compensation was $0.7 million, $0.9 million and $0.5 million for 2014, 2013 and 2012, respectively. Non-employee stock-based compensation is recognized over the vesting periods of the options. The value of options granted to non-employees is remeasured as they vest over a performance period.

Stock Option Plan Activity
A summary of the Company’s stock option activity is as follows:

	Outstanding Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Balance as of December 31, 2011	6,312,041	$3.36	6.9	$16,012
Granted	1,478,781	8.94		
Exercised	(724,316)	2.86		
Canceled	(552,998)	6.79		
Balance as of December 31, 2012	6,513,508	4.39	6.6	67,711
Granted	2,001,400	15.78		
Exercised	(952,871)	4.32		
Canceled	(522,944)	10.71		
Balance as of December 31, 2013	7,039,093	7.17	6.5	112,312
Granted	2,744,150	26.16		
Exercised	(1,216,710)	6.28		
Canceled	(961,126)	16.91		
Balance as of December 31, 2014	7,605,407	12.93	6.5	188,743
Vested and expected to vest—December 31, 2014	6,931,052	11.87	6.2	179,352

Exercisable—December 31, 2014	4,598,180	5.68	5.0	146,714

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the outstanding and vested stock options at December 31, 2014:

	Outstanding			Vested	
Exercise Price	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price Per Share
\$1.00 - \$1.50	238,559	\$1.40	1.5	238,559	\$1.40
\$1.90 - \$1.90	941,482	1.90	2.1	941,482	1.90
\$2.10 - \$2.80	461,758	2.62	3.9	461,758	2.62
\$3.80 - \$3.80	1,148,568	3.80	4.8	1,126,625	3.80
\$4.10 - \$8.40	924,121	5.55	6.0	826,292	5.35
\$8.90 - \$12.68	846,930	11.20	7.9	392,645	10.93
\$13.50 - \$20.80	962,889	18.50	8.5	250,599	17.03
\$22.31 - \$23.51	383,050	23.28	9.6	45,009	22.55
\$26.86 - \$26.86	701,350	26.86	9.0	29,728	26.86
\$30.58 - \$30.58	996,700	30.58	9.4	66,927	30.58
	7,605,407	12.93	6.5	4,379,624	5.58

The weighted-average grant date fair value of the Company's stock options granted during 2014, 2013 and 2012 was \$12.07, \$7.62 and \$4.27, respectively. The aggregate grant date fair value of the Company's stock options granted during 2014, 2013 and 2012 was \$33.1 million, \$15.2 million and \$6.3 million, respectively.
The intrinsic value of options exercised was \$25.7 million, \$11.1 million and \$4.0 million during 2014, 2013 and 2012, 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
The terms and conditions of RSAs, including vesting criteria and timing are set by the board of directors. The cost of RSAs is determined using the fair value of the Company's common stock on the date of the grant. Compensation cost is recognized on a straight-line basis over the requisite service period of each grant adjusted for estimated forfeitures. Recipients of RSAs generally have voting and dividend rights without regard to vesting. The Company has the right to repurchase shares that do not vest.

During 2014, 2013 and 2012, the Company granted 2,401, 2,900 and 3,750 shares of restricted stock, respectively, which vested immediately and had no further restrictions or service period, and resulted in compensation expense of \$51,000, \$41,000 and \$37,000, respectively.

401(k) Plan
The Company's 401(k) Plan (the "401(k) Plan") was established in 2000 to provide retirement and incidental benefits for its employees. As allowed under section 401(k) of the Internal Revenue Code, the 401(k) Plan provides tax-deferred salary deductions for eligible employees. Contributions to the 401(k) Plan are limited to a maximum amount as set periodically by the Internal Revenue Service. To date, the Company has not made any contributions to the 401(k) Plan.

NOTE 9. Other Income (Expense), Net

Other income (expense), net consists of the following:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Foreign exchange losses	$(664)	$(679)	$(238)
Other income (expense)	(413)	79	(9)
Other income (expense), net	$(1,077)	$(600)	$(247)

NOTE 10. Income Taxes

The Company’s geographical breakdown of income before income taxes is as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Domestic	$7,384	$947	$1,656
Foreign	1,229	1,094	923
Income before income taxes	$8,613	$2,041	$2,579

The (benefit from) provision for income taxes consists of the following:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Current			
Federal	$—	$(40)	$(18)
State	317	154	202
Foreign	651	452	147
Total current provision	968	566	331
Deferred			
Federal	$(22,184)	$6	$27
State	(433)	—	—
Foreign	18	(72)	—
Total deferred provision (benefit)	(22,599)	(66)	27
Total (benefit from) provision for income taxes	$(21,631)	$500	$358

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2014	2013	2012
Federal statutory rate	35.0 %	34.0 %	34.0 %
State taxes	1.4	5.1	5.5
Stock-based compensation	1.3	9.1	22.9
Foreign source income	3.9	1.9	(3.5)
Change in valuation allowance	(270.5)	(28.4)	(47.9)
Incremental federal rate benefit previously not recognized	(7.0)	—	—
Federal and state research and development credit	(11.3)	—	—
Other	(3.9)	2.8	2.9
(Benefit from) provision for income taxes	(251.1)%	24.5 %	13.9 %

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,	
	2014	2013
	(in thousands)	
Deferred tax assets		
Net operating loss carryforwards	$12,849	$18,895
Research and development credit carryforwards	6,392	5,189
Accrued liabilities	583	581
Deferred revenues	3,291	3,188
Deferred rent	191	210
Intangible assets	401	440
Stock-based compensation	4,149	1,714
Other	903	521
Gross deferred tax assets	28,759	30,738
Valuation allowance	(3,079)	(27,181)
Net deferred tax assets	25,680	3,557
Deferred tax liabilities		
Fixed assets	(3,039)	(3,483)
Intangible assets	(2)	(34)
Total deferred tax liabilities	(3,041)	(3,517)
Net deferred tax assets	$22,639	$40

Current and non-current deferred tax assets and liabilities included in the consolidated balance sheets are recorded as follows:

	December 31,	
	2014	2013
	(in thousands)	
Current deferred tax assets	$8,520	$114
Current deferred tax liabilities	—	—
Noncurrent deferred tax assets	14,119	72
Noncurrent deferred tax liabilities	—	(146)

Net deferred tax assets	$22,639	$40

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Realization of deferred tax assets is dependent upon future earnings, if any, and the timing and amount of such assets are uncertain. Prior to the fourth quarter of 2014, the Company had provided a valuation allowance for its U.S. federal and state deferred tax assets that it believed were not more likely than not realizable. Management determined that the objective and verifiable negative evidence, such as relatively low U.S. operating income and uncertainty of sustaining or growing future operating profits, continued to outweigh positive evidence that would be necessary to reduce the valuation allowance.

In the fourth quarter of 2014, the Company recorded a $23.7 million tax benefit for the recognition of its U.S. federal and certain state deferred tax assets, primarily due to the increased and expected sustainable profitability in its U.S. operations. In reaching this conclusion, management considered the Company's increasing realized profitability in the fourth quarter of 2014, forecasted future profitability, its ability to better absorb uncertainties in future profits, and the cumulative effect of changes in the current macro-economic environment surrounding the IT security industry, which ultimately resulted in increased demand for its solutions.

The Company believes it is more likely than not that its California deferred tax assets will not be realized because the income attributed to California is not expected to be sufficient to recognize these deferred tax assets. Accordingly, the Company continues to record the valuation allowance of $3.1 million as of December 31, 2014 for its California deferred tax assets During the year ended December 31, 2013, the valuation allowance had increased by $0.9 million to $27.2 million.

At December 31, 2014, the Company had federal and state net operating loss carryforwards of approximately $56.7 million and $10.5 million respectively, available to reduce federal and state taxable income. The excess tax benefits included in net operating loss carryforwards but not reflected in deferred tax assets for federal and state are $21.4 million and $1.7 million, respectively. The Company’s federal net operating losses expire in the years 2021 to 2034, and its state net operating losses expire from 2015 to 2034. Utilization of the Company’s net operating loss carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization. As of December 31, 2014, the Company had federal and state research and development credits of $5.0 million and $5.2 million, respectively. Federal research and development credits expire in the years 2022 to 2034. State research and development credits do not expire.

U.S. income taxes were not provided on undistributed earnings from investments in non-U.S. subsidiaries as the Company intends to continue to reinvest the earnings of these foreign subsidiaries indefinitely. The Company’s share of undistributed earnings of foreign subsidiaries that could be subject to additional U.S. income tax if remitted was approximately $6.8 million and $8.5 million as of December 31, 2014 and 2013, respectively. Determination of the amount of unrecognized deferred tax liability for temporary differences related to investments in these non-U.S. subsidiaries that are essentially permanent in duration is not practicable.

The evaluation of a tax position is a two-step process. The first step requires the Company to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step requires the Company to recognize in the financial statement each tax position that meets the more likely than not criteria, measured at the amount of benefit that has a greater than fifty percent likelihood of being realized.

A reconciliation of the Company’s unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Unrecognized tax benefits beginning balance	$3,255	$2,647	$2,792
Gross increase for tax positions of prior years	—	241	—
Gross decrease for tax positions of prior years	(127)	—	(46)

Gross increase for tax positions of current year	332	446	140
Settlements	—	—	(106)
Lapse of statute of limitations	(130)	(79)	(133)
Total unrecognized tax benefits	$3,330	$3,255	$2,647

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The unrecognized tax benefits, if recognized, would impact the income tax provision by $2.1 million, $1.0 million and $1.0 million as of December 31, 2014, 2013 and 2012, respectively.

The Company has elected to include interest and penalties as a component of income tax expense. The amounts were not material for 2014, 2013 and 2012.

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 2009 to 2014 remain open to examination by the major taxing jurisdictions in which the Company is subject to tax, with the exception of France which remains open to examination for the 2012 through 2014 tax years only. As of December 31, 2014, the Company was not under examination by the Internal Revenue Service or any state tax jurisdictions.

A one-year retroactive extension of the research credit from January 1, 2014 through December 31, 2014 was signed into law on December 19, 2014 in accordance with the Tax Increase Prevention Act of 2014. On January 2, 2013, the American Taxpayer Relief Act of 2012 (H.R. 8) was signed into law which retroactively extended the federal research and development credit from January 1, 2012 through December 31, 2013.

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. Segment Information and Information about Geographic Area

The Company operates in one segment. The Company’s chief operating decision maker is the Chairman, President and Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis. All of the Company’s principal operations and decision-making functions are located in the United States. Revenues by geographic area, based on the location of the customer, are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
United States	$93,425	$75,485	$62,616
Other	40,154	32,477	28,804
Total revenues	$133,579	$107,962	$91,420

Property and equipment, net, by geographic area, are as follows:

	December 31,	
	2014	2013
	(in thousands)	
United States	$23,650	$19,909
Other	2,968	3,166
Total property and equipment, net	$26,618	$23,075

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Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. Net Income Per Share Attributable to Common Stockholders

The computations for basic and diluted net income per share attributable to common stockholders are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except per share data)		
Numerator:			
Net income	$30,244	$1,541	$2,221
Net income attributable to participating securities	—	(2)	(1,172)
Net income attributable to common stockholders - basic	30,244	1,539	1,049
Undistributed earnings reallocated to participating securities	—	—	1,201
Net income attributable to common stockholders - diluted	$30,244	$1,539	$2,250
Denominator:			
Weighted-average shares used in computing net income per share attributable to common stockholders - basic	32,979	31,914	11,891
Effect of potentially dilutive securities:			
Convertible preferred stock	—	—	13,270
Common stock options	4,191	4,059	3,187
Contingently issuable shares related to an acquisition	—	—	4
Weighted-average shares used in computing net income per share attributable to common stockholders - diluted	37,170	35,973	28,352
Net income per share attributable to common stockholders			
Basic	$0.92	$0.05	$0.09
Diluted	$0.81	$0.04	$0.08

Potentially dilutive securities not included in the calculation of diluted net income per share because doing so would be antidilutive are as follows:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Common stock options	1,689	952	772

Qualys, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13. Quarterly Financial Information (Unaudited)
The following table sets forth unaudited consolidated statements of operations data for each of the quarters in the two-year period ended December 31, 2014. The unaudited quarterly consolidated statements of operations data set forth below have been prepared on the same basis as the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K and, in the opinion of management, reflect all necessary adjustments, which consist only of normal recurring adjustments, necessary for a fair presentation of such data. Historical results are not necessarily indicative of the results for the full year or any other period. This data should be read together with the consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	Three Months Ended							
	Mar. 31, 2013	Jun. 30, 2013	Sep. 30, 2013	Dec. 31, 2013	Mar. 31, 2014	Jun. 30, 2014	Sep. 30, 2014	Dec. 31, 2014
	(unaudited)							
	(in thousands, except per share data)							
Revenues	$24,883	$26,291	$27,749	$29,039	$30,356	$32,302	$34,348	$36,573
Cost of revenues	5,795	5,924	6,415	6,526	6,846	7,175	7,421	7,521
Gross profit	19,088	20,367	21,334	22,513	23,510	25,127	26,927	29,052
Operating expenses:								
Research and development	5,297	5,291	5,151	5,939	6,404	6,411	6,490	7,015
Sales and marketing	10,168	10,160	10,411	11,784	12,492	11,845	11,774	11,938
General and administrative	3,896	4,053	4,277	4,566	4,875	5,081	5,156	5,888
Total operating expenses	19,361	19,504	19,839	22,289	23,771	23,337	23,420	24,841
Income (loss) from operations	(273)	863	1,495	224	(261)	1,790	3,507	4,211
Other income (expense), net[(2)]	(270)	51	12	(61)	12	41	(119)	(568)
Income (loss) before income taxes [(2)]	(543)	914	1,507	163	(249)	1,831	3,388	3,643
Provision for (benefit from) income taxes[(1)]	70	92	210	128	182	174	283	(22,270)
Net income (loss) [(2)]	$(613)	$822	$1,297	$35	$(431)	$1,657	$3,105	$25,913
Net income (loss) attributable to common stockholders	$(613)	$821	$1,295	$35	$(431)	$1,657	$3,105	$25,913
Net income (loss) per share attributable to common stockholders:								
Basic [(2)]	$(0.02)	$0.03	$0.04	$0.00	$(0.01)	$0.05	$0.09	$0.77
Diluted [(2)]	$(0.02)	$0.02	$0.04	$0.00	$(0.01)	$0.04	$0.08	$0.69

[(1)] Provision for income taxes consists primarily of taxes on income in foreign jurisdictions and state income taxes in the U.S. In the fourth quarter of 2014, the Company recorded a tax benefit of $23.7 million to recognize its U.S. federal and certain state deferred tax assets.
[(2)] Other income (expense), income (loss) before income taxes, net income (loss), net income (loss) attributable to common stockholders and net income (loss) per share have been adjusted for an immaterial error as further described in Note 1 to the consolidated financial statements.

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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 and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. 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, 2014, 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. generally accepted accounting principles, or 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 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 and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014 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, 2014.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm because as an "emerging growth company" under the JOBS Act, our independent registered public accounting firm is not required to issue such an attestation report.

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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, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Certain Beneficial Owners and Management

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014. 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 “Item 5: Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Securities Authorized for Issuance under Equity Compensation Plans.”

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

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Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement for our 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2014.

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

SCHEDULE II
SUPPLEMENTARY CONSOLIDATED FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions and Other [1]	Balance at End of Year
Allowance for Doubtful Accounts				
Year ended December 31, 2014	$389	$470	$(269)	$590
Year ended December 31, 2013	$331	$307	$(249)	$389
Year ended December 31, 2012	$230	$218	$(117)	$331

[1] Primarily represents write-offs of uncollectible accounts, net of recoveries.

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

(b) Exhibits

The exhibits listed on the Exhibit Index (following the Signatures section of this report) are included, or incorporated by reference, in this Annual Report on Form 10-K.

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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 Redwood City, State of California on March 6, 2015.

QUALYS, INC.
By: /s/ PHILIPPE F. COURTOT
Name: Philippe F. Courtot
Title: Chairman, 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/ PHILIPPE F. COURTOT Philippe F. Courtot	Chairman, President and Chief Executive Officer (principal executive officer)	March 6, 2015
/s/ DONALD C. MCCAULEY Donald C. McCauley	Chief Financial Officer (principal financial and accounting officer)	March 6, 2015
/s/ SANDRA E. BERGERON Sandra E. Bergeron	Director	March 6, 2015
/s/ DONALD R. DIXON Donald R. Dixon	Director	March 6, 2015
/s/ JEFFREY P. HANK Jeffrey P. Hank	Director	March 6, 2015
/s/ GENERAL PETER PACE General Peter Pace	Director	March 6, 2015
/s/ KRISTI M. ROGERS Kristi M. Rogers	Director	March 6, 2015
/s/ HOWARD A. SCHMIDT Howard A. Schmidt	Director	March 6, 2015

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EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference 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	Amended and Restated Investor Rights Agreement, by and among Qualys, Inc. and the investors party thereto, dated July 12, 2005.		S-1	333-182027	4.2	June 8, 2012
10.1*	2000 Equity Incentive Plan, as amended, and the form of stock option agreement thereunder.		S-1	333-182027	10.1	June 8, 2012
10.2*	2012 Equity Incentive Plan and forms of agreements thereunder.		S-1/A	333-182027	10.2	September 12, 2012
10.3*	Offer Letter, between Qualys, Inc. and Philippe F. Courtot, dated December 7, 2000.		S-1	333-182027	10.3	June 8, 2012
10.4*	Offer Letter, between Qualys, Inc. and Amer S. Deeba, dated September 4, 2001.		S-1	333-182027	10.4	June 8, 2012
10.5*	Offer Letter, between Qualys, Inc. and Sumedh S. Thakar, dated January 20, 2003.		S-1	333-182027	10.5	June 8, 2012
10.6*	Offer Letter, between Qualys, Inc. and Donald C. McCauley, dated February 7, 2006, as amended.		S-1	333-182027	10.6	June 8, 2012
10.7*	Offer Letter, between Qualys, Inc. and Bruce K. Posey, dated May 8, 2012.		S-1	333-182027	10.9	June 8, 2012
10.8*	Form of director and executive officer indemnification agreement.		S-1/A	333-182027	10.1	August 10, 2012
10.9			S-1	333-182027	10.11	June 8, 2012

	Lease Agreement, between Qualys, Inc. and Westport Office Park, LLC, dated July 11, 2006, as amended August 10, 2007, May 20, 2010 and December 5, 2011.				
10.10*	2011 Corporate Bonus Plan.	S-1	333-182027	10.12	June 8, 2012
10.11*	2012 Corporate Bonus Plan.	S-1	333-182027	10.13	June 8, 2012
10.12	Master Services Agreement, between Qualys, Inc. and Savvis Communications Corporation, dated June 22, 2010.	S-1/A	333-182027	10.14	September 12, 2012
10.13†	Master Agreement, between Qualys, Inc. and Interoute Communications Limited, dated March 31, 2008.	S-1/A	333-182027	10.15	September 12, 2012
10.14†	Manufacturing Services Agreement, between Qualys, Inc. and Synnex Corporation, dated March 1, 2011.	S-1/A	333-182027	10.16	September 12, 2012
10.17*	Offer Letter, between Qualys, Inc. and Ann S. Johnson, dated November 7, 2013	8-K	001-35662	10.1	November 12, 2013

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10.18*	Agreement with Ann S. Johnson dated May 2, 2014		8-K	001-35662	10.11	May 5, 2014
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	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X				
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	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.

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