QUALYS, INC.
Form S-1/A
July 17, 2012
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As filed with the Securities and Exchange Commission on July 17, 2012

Registration No. 333-182027

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

QUALYS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**7372**	**77-0534145**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1600 Bridge Parkway

Redwood City, California 94065

(650) 801-6100

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Philippe F. Courtot

Chairman, President and Chief Executive Officer

Qualys, Inc.

1600 Bridge Parkway

Redwood City, California 94065

(650) 801-6100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Jeffrey D. Saper	**Bruce K. Posey**	**Timothy J. Moore**
Rezwan D. Pavri	**Vice President, General Counsel and Corporate Secretary**	**John T. McKenna**
Wilson Sonsini Goodrich & Rosati, P.C.	**Qualys, Inc.**	**Cooley LLP**
650 Page Mill Road	**1600 Bridge Parkway**	**3175 Hanover Street**
Palo Alto, California 94304	**Redwood City, California 94065**	**Palo Alto, California 94304**

(650) 493-9300	**(650) 801-6100**	**(650) 843-5000**

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

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

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

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

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

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

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

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

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

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

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

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PROSPECTUS SUMMARY

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

Overview

We are a pioneer and leading provider of cloud security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber attacks and achieve compliance with internal policies and external regulations. Our cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing and the proliferation of geographically dispersed IT assets. Organizations can use our integrated suite of solutions delivered on our QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

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

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

Industry Overview

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

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

- ***Traditional IT security and compliance approaches struggle to effectively secure evolving IT environments.*** As IT infrastructures evolve to include a mixture of on-premise, cloud and hybrid environments consisting of multiple networks and millions of devices, traditional on-premise enterprise software products may limit the ability of organizations to effectively protect their infrastructures from security threats and ensure compliance with internal policies and external regulations.

- ***Security attacks targeting new layers of the IT infrastructure.*** In addition to well-known vulnerabilities and methods of attack, which are referred to as attack vectors, the proliferation of networked devices, endpoints and web applications provides cyber attackers with a broader range of additional vulnerabilities to exploit across IT infrastructures.

- ***Costly regulatory and compliance requirements.*** As security breaches have increased, so have regulatory and compliance requirements. Organizations are faced with the increasing challenge and cost of managing policy compliance in addition to maintaining the security of their IT infrastructures.

- ***Security concerns for organizations adopting cloud applications and services.*** IT organizations are under increasing pressure to adopt next-generation cloud applications and services and are seeking solutions that provide comprehensive security across internal and cloud-based infrastructures.

Market Opportunity

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

Our Solution

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

- ***Delivers a robust and integrated suite of security solutions through a cloud platform.*** Our cloud architecture enables regular, automated scanning and analysis across large, global networks for an organization s connected devices, endpoints and web applications from a single platform, and can be extended to third-party systems and applications within an organization s ecosystem of customers and partners.

- ***Provides visibility into security across a broad range of IT assets and attack vectors.*** We enable our customers to substantially improve the security of their IT infrastructures by providing an automated, global and objective assessment of their security and compliance posture from the network to the application, including an organization s

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

Enables more effective and lower-cost policy and regulatory compliance. Our policy compliance solutions help address a broad range of compliance requirements related to internal policies and external regulations across a variety of industries, including the payment card industry. These solutions enable organizations to automate compliance-related workflows and provide documentation of compliance demanded by regulators, auditors and other governing bodies.

Enhances security of cloud computing. We help our customers to securely extend their IT infrastructures to cloud environments. Our cloud platform identifies and evaluates physical and virtual IT assets within internal and third-party IT environments, providing our customers with visibility into their security and compliance postures across their extended infrastructures.

Our Competitive Strengths

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

Trusted brand in cloud security. We are a pioneer in cloud security, having introduced our vulnerability management solution as a service in 2000, and have since built a reputation as a trusted and objective provider of reliable and accurate vulnerability and compliance assessments.

Scalable and extensible cloud platform serving organizations of all sizes, across many industries globally. Our highly-scalable cloud architecture and modular security and compliance solutions allow customers to access the functionality they need to help ensure the security of their IT infrastructures. Our cloud platform is designed to serve organizations ranging from small businesses to large enterprises with millions of unique IP-addressable networked devices and applications across globally-distributed IT infrastructures.

Longstanding focus on innovation in cloud security and compliance. Since inception, we have introduced innovative cloud security and compliance solutions that allow our customers to protect their IT environments more effectively and at a lower cost. We have invested significantly to continuously improve our platform and believe that we are well positioned to address the challenges of the evolving IT security and compliance landscape.

Efficient customer acquisition and upsell model. Our cloud delivery model allows potential and existing customers to easily and immediately access one or more of our solutions on a trial basis from any web browser. This model also allows our customers to subscribe to only the solutions they need initially and easily expand the breadth of their deployment and the number of solutions they use as their needs evolve.

Our Growth Strategy

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

Continue to innovate and enhance our cloud platform and suite of solutions;

Expand the use of our suite of solutions by our large and diverse customer base;

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- Drive new customer growth by targeting key accounts and expanding our sales and marketing organization and network of channel partners;

- Broaden our global reach by expanding our relationships with key security consulting organizations, managed security service providers and value added resellers; and

- Selectively pursue technology acquisitions to bolster our capabilities and leadership position.

Risks Related to Our Business

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

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

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

- If we do not successfully anticipate market needs and opportunities or are unable to enhance our solutions and develop new solutions that meet those needs and opportunities on a timely basis, we may not be able to compete effectively and our ability to generate revenues would suffer;

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

- Our quarterly operating results may vary from period to period, which could cause the trading price of our stock to decline;

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

- Our business depends substantially on retaining our current customers and attracting new customers, and any decline in our customer renewals or slowing in the growth of our customer base could harm our future operating results;

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

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

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

- Immediately following the completion of this offering, our executive officers, directors and principal stockholders will own % of our common stock and will continue to have significant control of our management and affairs.

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

Additionally, we are an emerging growth company as defined in the recently enacted Jumpstart Our Business Startups Act and therefore we may take advantage of certain exemptions from various public company reporting requirements, including not being required to have our internal control over

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financial reporting audited by our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments. We may take advantage of these exemptions until we are no longer an emerging growth company.

Our Corporate Information

We were incorporated in Delaware on December 30, 1999. Our principal executive offices are located at 1600 Bridge Parkway, Redwood City, California 94065. The telephone number of our principal executive offices is (650) 801-6100, and our main corporate website is www.qualys.com. Information contained on, or that can be accessed through, our website, does not constitute part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

Qualys, the Qualys logo and QualysGuard, and other trademarks and service marks of Qualys appearing in this prospectus are the property of Qualys. This prospectus also contains trademarks and trade names of other businesses that are the property of their respective holders. We have omitted the ® and designations, as applicable, for the trademarks used in this prospectus.

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The Offering

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

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

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of $0.35 per share;
- 15,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Equity Incentive Plan, as amended, or our 2000 Plan, including 9,000,000 shares added to our 2000 Plan after March 31, 2012, and of which options to purchase 8,778,926 shares of our common stock were granted after March 31, 2012, with a weighted-average exercise price of $0.87 per share; and
- shares of our common stock reserved for future issuance pursuant to our 2012 Equity Incentive Plan, or our 2012 Plan, which will become effective upon completion of this offering and which will contain provisions that automatically increase its share reserve each year.

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

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

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Summary Consolidated Financial and Other Data

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

The following summary consolidated financial and other data should be read in conjunction with the sections titled Selected Consolidated Financial and Other Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus.

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

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

(1) Includes stock-based compensation as follows:

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

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

	March 31, 2012		
	Actual	Pro Forma(1)	Pro Forma As Adjusted(2)
		(unaudited)	
	(in thousands)		
Consolidated Balance Sheet Data:			
Cash	$ 30,646	$ 30,646	$
Total assets	71,318	71,318	

Deferred revenues, current	48,354	48,354
Deferred revenues, noncurrent	5,745	5,745
Convertible preferred stock	63,873	
Total stockholders equity (deficit)	(64,302)	(429)

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

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

Other Financial Data (unaudited):

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

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

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

Non-GAAP Financial Measures

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a financial measure that is not prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since over 80% of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers original subscriptions, customer requests to modify subscription periods, or other factors.

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

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

Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation.

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

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

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Limitations of Four-Quarter Bookings and Adjusted EBITDA

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

- Four-Quarter Bookings reflects the amount of revenues over a four-quarter period, plus the net change in the current portion of deferred revenues, while revenues are recognized ratably over the subscription periods;

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;

- Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;

- Adjusted EBITDA excludes depreciation and amortization of property and equipment and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and

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

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

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information contained in this prospectus, including our consolidated financial statements and the related notes, before making a decision to invest in our common stock. If any of the following risks materialize, our business, financial condition, results of operations and prospects could be harmed. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

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

We have not been consistently profitable on a quarterly or annual basis. While we have experienced significant revenue growth over recent years, we may not be able to sustain or increase our growth or return to profitability in the future. Although we had net income in 2009, 2010, and 2011, we experienced a net loss of $0.3 million for the three months ended March 31, 2012. The net loss was primarily due to increased sales and marketing activities in the first quarter of 2012 as we continued to expand our worldwide customer base as well as focus on the promotion of our new solutions. We plan to continue to invest in our infrastructure, new solutions, research and development and sales and marketing, and as a result, we cannot assure you that we will return to or maintain profitability. In addition, as a public company, we will incur significant accounting, legal and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenues to achieve future profitability. We may incur losses in the future for a number of reasons, including without limitation, the other risks and uncertainties described in this prospectus. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed and we may not again achieve or maintain profitability in the future.

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

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

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If the market for cloud solutions for IT security and compliance does not evolve in the way we anticipate or if customers do not recognize the benefits of our cloud solutions over traditional on-premise enterprise software products, and as a result we are unable to increase sales of subscriptions to our solutions, then our revenues may not grow or may decline, and our operating results would be harmed.

If we do not successfully anticipate market needs and opportunities or are unable to enhance our solutions and develop new solutions that meet those needs and opportunities on a timely basis, we may not be able to compete effectively and our ability to generate revenues would suffer.

The IT security and compliance market is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards and regulatory mandates. We must also continually change and improve our solutions in response to changes in operating systems, application software, computer and communications hardware, networking software, data center architectures, programming tools and computer language technology.

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

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

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

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

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

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

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

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

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

- the level of demand for our solutions;
- changes in customer renewal rates for our solutions;
- the extent to which customers subscribe for additional solutions;
- seasonal buying patterns of our customers;
- the level of perceived threats to IT security;
- security breaches, technical difficulties or interruptions with our service;
- changes in the growth rate of the IT security and compliance market;
- the timing and success of new product or service introductions by us or our competitors or any other changes in the competitive landscape of our industry, including consolidation among our competitors;
- the introduction or adoption of new technologies that compete with our solutions;
- decisions by potential customers to purchase IT security and compliance products or services from other vendors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

the timing of sales commissions relative to the recognition of revenues;

the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates;

price competition;

insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our solutions;

changes in foreign currency exchange rates;

general economic conditions, both domestically and in the foreign markets in which we sell our solutions; and

future accounting pronouncements or changes in our accounting policies.

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

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

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

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

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

If we are unable to continue to attract new customers and grow our customer base, our growth could be slower than we expect and our business may be harmed.

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

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

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

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

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

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

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

Our data centers are not currently redundant and we cannot rapidly move customers from one data center to another, which may increase delays in the restoration of our service for our customers if an adverse event occurs. We intend to add additional data center facilities in 2013 to provide additional capacity for our cloud platform and enable disaster recovery. These additional facilities may not be operational in the anticipated time frame and we may incur unplanned expenses.

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

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Any disruptions or other performance problems with our solutions could harm our reputation and business and may damage our customers businesses. Interruptions in our service delivery might reduce our revenues, cause us to issue credits to customers, subject us to potential liability, cause customers to terminate their subscriptions and harm our renewal rates.

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

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

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

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

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

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

If our solutions fail to detect vulnerabilities in our customers IT infrastructures, or if our solutions fail to identify and respond to new and increasingly complex methods of attacks, our business and reputation may suffer. There is no guarantee that our solutions will detect all vulnerabilities. Additionally, our security and compliance solutions may falsely detect vulnerabilities or threats that do not actually exist. For example, some of our solutions rely on information on attack sources aggregated from third-party data providers who monitor global malicious activity originating from a variety of sources, including anonymous proxies, specific IP addresses, botnets and phishing sites. If the information from these data providers is inaccurate, the potential for false indications of security vulnerabilities increases. These false positives, while typical in the industry, may impair the perceived reliability of our solutions and may therefore adversely impact market acceptance of our solutions and

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

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

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

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

Our solutions are deployed in a wide variety of IT environments, including large-scale, complex infrastructures. If our customers are unable to implement our solutions successfully, customer perceptions of our platform may be impaired or our reputation and brand may suffer. Our customers have in the past inadvertently misused our solutions, which triggered downtime in their internal infrastructure until the problem was resolved. Any misuse of our solutions could result in customer dissatisfaction, impact the perceived reliability of our solutions, result in negative press coverage, negatively affect our reputation and harm our financial results.

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

Our operations involve providing IT security solutions to our customers, and as a result we could be a target of cyber attacks designed to impede the performance of our solutions, penetrate our network security or the security of our cloud platform or our internal systems, misappropriate proprietary information and/or cause interruptions to our services. If an actual or perceived breach of our network security occurs, it could adversely affect the market perception of our solutions, negatively affecting our reputation, and may expose us to the loss of information, litigation and possible liability. Such a security breach could also divert the efforts of our technical and management personnel. In addition, such a security breach could impair our ability to operate our business and provide solutions to our customers. If this happens, our reputation could be harmed, our revenues could decline and our business could suffer.

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

Our solutions may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new solutions and solution upgrades and we expect that these errors or defects will be found from time to time in the future in new or enhanced solutions after commercial release of these solutions. Since our customers use our solutions for security and compliance reasons, any errors, defects, disruptions in service or other performance problems with our solutions may damage our customers business and could hurt our reputation. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew, or other significant customer relations problems may arise. We may also be subject to liability claims for damages related to errors or defects in our solutions. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our solutions may harm our business and operating results.

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

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

In addition to laws and regulations, privacy advocacy and industry groups or other private parties may propose new and different privacy standards that either legally or contractually apply to us. Because the interpretation and application of privacy and data protection laws and privacy standards are still uncertain, it is possible that these laws or privacy standards may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solutions. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and privacy standards, could result in additional cost and liability to us, damage our reputation, inhibit sales of subscriptions and harm our business.

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

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

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

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

We compete with a large range of established and emerging vulnerability management vendors, compliance vendors and data security vendors in a highly fragmented and competitive environment.

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We face significant competition for each of our solutions from companies with broad product suites and greater name recognition and resources than we have, as well as from small companies focused on specialized security solutions.

We compete with large public companies, such as Hewlett-Packard Company, International Business Machines Corporation, McAfee, Inc. (a subsidiary of Intel Corporation), and Symantec Corporation, as well as private security providers including BeyondTrust Software, Inc., Lumension Security, Inc., nCircle Network Security, Inc., Rapid7 LLC, Tenable Network Security, Inc. and Trustwave Holdings, Inc. We also seek to replace IT security and compliance solutions that organizations have developed internally. As we continue to extend our cloud platform s functionality by further developing security and compliance solutions, such as web application scanning and firewalls, we expect to face additional competition in these new markets. Our competitors may also attempt to further expand their presence in the IT security and compliance market and compete more directly against one or more of our solutions.

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

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

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

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

Furthermore, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product and services offerings in the markets we address. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and acquisitions, our current or potential competitors might be able to adapt more quickly to new

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technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. For all of these reasons, we may not be able to compete successfully against our current or future competitors.

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

We have experienced rapid growth over the last several years. From 2009 to 2011, our revenues have grown from $57.4 million to $76.2 million, and our headcount increased from 205 employees at the beginning of 2009 to 300 employees at the end of 2011. We rely on information technology systems to help manage critical functions such as order processing, revenue recognition and financial forecasts. To manage any future growth effectively, and in connection with our transition to a publicly-listed company, we must continue to improve and expand our IT systems, financial infrastructure, and operating and administrative systems and controls, and continue to manage headcount, capital and processes in an efficient manner. We may not be able to successfully implement improvements to these systems and processes in a timely or efficient manner.

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

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

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

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

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

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

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

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

Our success is significantly dependent upon establishing and maintaining relationships with a variety of channel partners and we anticipate that we will continue to depend on these partners in order to grow our business. For 2009, 2010 and 2011 and the three months ended March 31, 2012, we derived approximately 30%, 33%, 38% and 41%, respectively, of our revenues from sales of our solutions through channel partners, and the percentage of revenues derived from channel partners may increase in future periods. Our agreements with our channel partners are generally non-exclusive and do not prohibit them from working with our competitors or offering competing solutions, and many of our channel partners have more established relationships with our competitors. If our channel partners choose to place greater emphasis on products of their own or those offered by our competitors, do not effectively market and sell our solutions, or fail to meet the needs of our customers, then our ability to grow our business and sell our solutions may be adversely affected. In addition, the loss of one or more of our larger channel partners, who may cease marketing our solutions with limited or no notice, and our possible inability to replace them, could adversely affect our sales. Moreover, our ability to expand our distribution channels depends in part on our ability to educate our channel partners about our solutions, which can be complex. Our failure to recruit additional channel partners, or any reduction or delay in their sales of our solutions or conflicts between channel sales and our direct sales and marketing activities may harm our results of operations. Even if we are successful, these relationships may not result in greater customer usage of our solutions or increased revenues.

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

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

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

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

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

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

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

Although we monitor our use of open source software in an effort both to comply with the terms of the applicable open sources licenses and to avoid subjecting our solutions to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our solutions. In this event, we could be required to seek

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licenses from third parties to continue offering our solutions, to make our proprietary code generally available in source code form, to re-engineer our solutions or to discontinue the sale of our solutions if re-engineering could not be accomplished on a timely basis, any of which could adversely affect our business, operating results and financial condition.

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

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

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

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

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

- foreign currency exchange fluctuations;
- trade and foreign exchange restrictions;
- economic or political instability in foreign markets;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- changes in regulatory requirements;
- difficulties and costs of staffing and managing foreign operations;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- costs of compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;

costs of complying with U.S. laws and regulations for foreign operations, including the Foreign Corrupt Practices Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our solutions in certain foreign markets, and the risks and costs of non-compliance;

heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;

the potential for political unrest, acts of terrorism, hostilities or war;

management communication and integration problems resulting from cultural differences and geographic dispersion; and

multiple and possibly overlapping tax structures.

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

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

Our reporting currency is the U.S. dollar and we generate a majority of our revenues in U.S. dollars. However, in 2011, we incurred approximately 20% of our expenses outside of the United States in foreign currencies, primarily Euros, principally with respect to salaries and related personnel expenses associated with our European operations. Additionally, in 2011, 21% of our revenues were generated in foreign currencies. Accordingly, changes in exchange rates may have a material adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. We expect that a majority of our revenues will continue to be generated in U.S. dollars for the foreseeable future and that a significant portion of our expenses, including personnel costs, as well as capital and operating expenditures, will continue to be denominated in Euros. The results of our operations may be adversely affected by foreign exchange fluctuations.

We use forward foreign exchange contracts to mitigate the effect of changes in foreign exchange rates on cash and accounts receivable balances denominated in certain foreign currencies. However, we may not be able to purchase derivative instruments that are adequate to insulate ourselves from foreign currency exchange risks. Additionally, our hedging activities may contribute to increased losses as a result of volatility in foreign currency markets.

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

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

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

We have several pending U.S. patent applications, and may file additional patent applications in the future. Additionally, as of March 31, 2012, we had an exclusive license to four third-party patents. The process of obtaining patent protection is expensive and time-consuming, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner, if at all. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Furthermore, it is possible that our patent applications may not result in granted patents, that the scope of our issued patents will be limited or not provide the coverage originally sought, that our issued patents will not provide us with any competitive advantages, or that our patents and other intellectual property rights may be challenged by others or invalidated through administrative processes or litigation. In addition, issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. As a result, we may not be able to obtain adequate patent protection or to enforce our issued patents effectively.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results and financial condition. If we are unable to protect our intellectual property rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time and effort required to create the innovative solutions that have enabled us to be successful to date.

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

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

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

An adverse outcome of a dispute may require us to:

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

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

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

Taxing jurisdictions, including state and local entities, have differing rules and regulations governing sales and use or other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our subscription services in various jurisdictions is unclear. We have recorded sales tax liabilities of $0.9 million on our consolidated balance sheet as of March 31, 2012 with respect to sales and use tax liabilities in various jurisdictions where we believe our solutions are subject to sales tax. It is possible that we could face sales tax audits and that our liability for these taxes could exceed our estimates as tax authorities could still assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities. We could also be subject to audits with respect to state and international jurisdictions for which we have not accrued tax liabilities. A successful assertion that we should be collecting additional sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our solutions or otherwise harm our business and operating results.

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

Our future performance depends on the continued services and continuing contributions of our senior management, particularly Philippe F. Courtot, our Chairman, President and Chief Executive Officer, and other key employees to execute on our business plan and to identify and pursue new

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opportunities and product innovations. We do not maintain key-man insurance for Mr. Courtot or for any other member of our senior management team. From time to time, there may be changes in our senior management team resulting from the termination or departure of executives. Our senior management and key employees are generally employed on an at-will basis, which means that they could terminate their employment with us at any time. The loss of the services of our senior management, particularly Mr. Courtot, or other key employees for any reason could significantly delay or prevent the achievement of our development and strategic objectives and harm our business, financial condition and results of operations.

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

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

For example, we are required under U.S. GAAP to recognize compensation expense in our operating results for employee stock-based compensation under our equity grant programs, which may negatively impact our operating results and may increase the pressure to limit stock-based compensation that we might otherwise offer to current or potential employees. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information.

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

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

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

Government entities have historically been particularly concerned about adopting cloud-based solutions for their operations, including security solutions, and increasing sales of subscriptions for our solutions to government entities may be more challenging than selling to commercial organizations. Selling to government entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will win a sale. We have invested in the creation of a cloud offering certified under the Federal Information Security Management Act, or FISMA, for government usage but we cannot be sure that we will continue to sustain or renew this certification, that the government will continue to mandate such certification or that other government agencies or entities will use this cloud offering. Government demand and payment for our solutions may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Government entities may have contractual or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and any such termination may adversely

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impact our future results of operations. Governments routinely investigate and audit government contractors administrative processes, and any unfavorable audit could result in the government refusing to continue buying our solutions, a reduction of revenues or fines or civil or criminal liability if the audit uncovers improper or illegal activities. Any such penalties could adversely impact our results of operations in a material way.

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

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

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

In order to remain competitive, we have in the past and may in the future seek to acquire additional businesses, products or technologies. The environment for acquisitions in our industry is very competitive and acquisition candidate purchase prices will likely exceed what we would prefer to pay. Moreover, achieving the anticipated benefits of future acquisitions will depend in part upon whether we can integrate acquired operations, products and technology in a timely and cost-effective manner. The acquisition and integration process is complex, expensive and time consuming, and may cause an interruption of, or loss of momentum in, product development and sales activities and operations of both companies. We may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful. If we consummate a transaction, we may be unable to integrate and manage acquired products and businesses effectively or retain key personnel. If we are unable to effectively execute acquisitions, our business, financial condition and operating results could be adversely affected.

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial

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statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenues and expenses that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, goodwill and intangibles, accounting for income taxes and stock-based compensation.

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

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business.

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

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

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

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

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

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions. Our tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from the requirement to expense stock options and the valuation of deferred tax assets and liabilities, including our ability to utilize our federal net operating losses, which were $61.2 million as of December 31, 2011. Increases in our effective tax rate could harm our operating results.

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

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

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

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing exchange. To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring accounting or internal audit staff. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the Securities and Exchange Commission, or the SEC, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers.

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

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annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will be required to include in our periodic reports we will file with the SEC under Section 404 of the Sarbanes-Oxley Act. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and our stock price could decline. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the applicable listing exchange.

We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, and are therefore not yet required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. Upon becoming a public company, we will be required to comply with certain of these rules, which will require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the SEC following the date we are no longer an emerging growth company as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Our remediation efforts may not enable us to avoid a material weakness in the future. We will remain an emerging growth company for up to five years, although, we would cease to be an emerging growth company upon the earliest of (i) the first fiscal year following the fifth anniversary of this offering, (ii) the first fiscal year after our annual gross revenues are $1 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt securities, or (iv) the date on which we are deemed to be a large accelerated filer as defined in the Exchange Act.

We will incur significantly increased costs and devote substantial management time as a result of operating as a public company, particularly after we are no longer an emerging growth company, which could adversely affect our business and operating results.

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

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

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After we are no longer an emerging growth company, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, when applicable to us. In that regard, we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

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

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

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

Risks Related to Our Common Stock and this Offering

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

Following the completion of this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been previously traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of other factors, most of which we cannot predict or control, including:

- announcements of new solutions, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- general market conditions and overall fluctuations in U.S. equity markets;
- variations in our operating results, or the operating results of our competitors;
- changes in our financial guidance or securities analysts estimates of our financial performance;
- changes in accounting principles;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

additions or departures of any of our key personnel;

announcements related to litigation;

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- changing legal or regulatory developments in the United States and other countries; and

- discussion of us or our stock price by the financial press and in online investor communities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Provisions in our restated certificate of incorporation and amended and restated bylaws that will become effective immediately prior to the completion of this offering may delay or prevent an acquisition of us or a change in our management. These provisions include:

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, it is possible to identify forward-looking statements because they contain words such as anticipates, believes, contemplates, continue, could, estimates, expects, future, intends, likely, may, plans, potential, predicts, projects, seek, should, target or words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this prospectus include, but are not limited to, statements about:

- our financial performance, including our revenues, costs, expenditures, growth rates, operating expenses and ability to generate positive cash flow to attain and sustain profitability;
- anticipated technology trends, such as the use of cloud solutions;
- our ability to adapt to changing market conditions;
- economic and financial conditions, including volatility in foreign exchange rates;
- our ability to attract and retain customers;
- our ability to diversify our sources of revenues;
- the effects of increased competition in our market;
- our ability to effectively manage our growth;
- our anticipated investments in sales and marketing and research and development;
- maintaining and expanding our relationships with channel partners;
- our ability to maintain, protect and enhance our brand and intellectual property;
- costs associated with defending intellectual property infringement and other claims;
- our ability to attract and retain qualified employees and key personnel;
- our ability to successfully enter new markets and manage our international expansion; and

other factors discussed in this prospectus in the sections titled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business.

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

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

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

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INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations and market position, market opportunity and market size, is based on information from various sources, including independent industry publications, including those generated by Gartner, Inc. and IDC, on assumptions that we have made that are based on those data and other similar sources and on our knowledge of the markets for our solutions. These data involve a number of assumptions and limitations, and investors are cautioned not to give undue weight to such estimates. We believe the market position, market opportunity and market size information included in this prospectus is generally reliable, and the conclusions contained in the third-party information are reasonable. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section titled Risk Factors and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

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

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

(1) IDC, *Worldwide Software as a Service 2011 2015 Forecast and 2010 Vendor Shares, Robert P. Mahowald, August 2011.*

(2) IDC, *Worldwide Security and Vulnerability Management 2011 2015 Forecast and 2010 Vendor Shares, Charles J. Kolodgy, November 2011.*

(3) IDC, *Worldwide Cloud Security 2011 2015 Forecast: A Comprehensive Look at the Cloud/Security Ecosystem, Phil Hochmuth, Sally Hudson, John Grady, Christian A. Christiansen, Charles J. Kolodgy, December 2011.*

(4) Gartner, *Gartner Survey: PCI Compliance Activity Shifts Downstream as Aggressive Enforcement Continues, Avivah Litan, June 2011.*

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USE OF PROCEEDS

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

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

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

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

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

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DIVIDEND POLICY

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

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CAPITALIZATION

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

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

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

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

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

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

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

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of $0.35 per share;

- 15,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Plan, including 9,000,000 shares added to our 2000 Plan after March 31, 2012, and of which options to purchase 8,778,926 shares of our common stock were granted after March 31, 2012, with a weighted-average exercise price of $0.87 per share; and

- shares of our common stock reserved for future issuance pursuant to our 2012 Plan, which will become effective upon completion of this offering, and which will contain provisions that automatically increase its share reserve each year.

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DILUTION

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

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

The following table illustrates this dilution:

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

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

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

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

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

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders		%	$	%	$
New public investors					
Total		100%	$	100%	

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

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

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

- 63,735,536 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of March 31, 2012, with a weighted-average exercise price of $0.35 per share;

- 15,951,509 shares of our common stock reserved for future issuance pursuant to our 2000 Plan, including 9,000,000 shares added to our 2000 Plan after March 31, 2012, and of which options to purchase 8,778,926 shares of our common stock were granted after March 31, 2012, with a weighted-average exercise price of $0.87 per share; and

- shares of our common stock reserved for future issuance pursuant to our 2012 Plan, which will become effective upon completion of this offering, and which will contain provisions that automatically increase its share reserve each year.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

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

The following selected consolidated financial and other data should be read in conjunction with the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, related notes and other financial information included elsewhere in this prospectus.

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

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

(1) Includes stock-based compensation as follows:

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

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

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

Total stockholders equity (deficit)	(74,574)	(74,310)	(72,740)	(69,841)	(64,864)	(64,302)

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Other Financial Data (unaudited):

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

	Four Quarters Ended December 31,					March 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands)						
Four-Quarter Bookings	$ 44,693	$ 53,765	$ 61,672	$ 69,977	$ 85,118	$ 72,226	$ 90,294

	Year Ended December 31,					Three Months Ended March 31,	
	2007	2008	2009	2010	2011	2011	2012
	(in thousands)						
Adjusted EBITDA	$ 1,503	$ 3,677	$ 6,162	$ 7,648	$ 10,426	$ 2,607	$ 2,290

Non-GAAP Financial Measures

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a non-GAAP financial measure, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since over 80% of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers original subscriptions, customer requests to modify subscription periods, or other factors.

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

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

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Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation.

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

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

Limitations of Four-Quarter Bookings and Adjusted EBITDA

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

- Four-Quarter Bookings reflects the amount of revenues over a four-quarter period, plus the net change in the current portion of deferred revenues, while revenues are recognized ratably over the subscription periods;

- Adjusted EBITDA does not reflect certain cash and non-cash charges that are recurring;

- Adjusted EBITDA does not reflect income tax payments that reduce cash available to us;

- Adjusted EBITDA excludes depreciation and amortization of property and equipment and, although these are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future; and

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the section titled Selected Consolidated Financial and Other Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. In addition to historical information, this discussion contains forward-looking statements that involve risks and uncertainties that could cause our actual results to differ materially from our expectations. Factors that could cause such differences include, but are not limited to, those described in the section titled Risk Factors and elsewhere in this prospectus.

Overview

We are a pioneer and leading provider of cloud security and compliance solutions that enable organizations to identify security risks to their IT infrastructures, help protect their IT systems and applications from ever-evolving cyber attacks and achieve compliance with internal policies and external regulations. Our cloud solutions address the growing security and compliance complexities and risks that are amplified by the dissolving boundaries between internal and external IT infrastructures and web environments, the rapid adoption of cloud computing and the proliferation of geographically dispersed IT assets. Our integrated suite of security and compliance solutions delivered on our QualysGuard Cloud Platform enable our customers to identify their IT assets, collect and analyze large amounts of IT security data, discover and prioritize vulnerabilities, recommend remediation actions and verify the implementation of such actions. Organizations use our integrated suite of solutions delivered on our QualysGuard Cloud Platform to cost-effectively obtain a unified view of their security and compliance posture across globally-distributed IT infrastructures.

We were founded in December 1999 with a vision of transforming the way organizations secure and protect their IT infrastructure and applications and initially launched our first cloud solution, QualysGuard Vulnerability Management, in 2000. This solution has provided the substantial majority of our revenues to date. As this solution gained acceptance, we introduced new solutions to help customers manage increasing IT security and compliance requirements. In 2006, we added our PCI Compliance solution, and in 2008, we added our Policy Compliance solution. In 2009, we broadened the scope of our cloud services by adding Web Application Scanning. We continued our expansion in 2010, launching Malware Detection Service and Qualys SECURE Seal for automated protection of websites.

We provide our solutions through a software-as-a-service model, primarily with renewable annual subscriptions. These subscriptions require customers to pay a fee in order to access our cloud solutions. We invoice our customers for the entire subscription amount at the start of the subscription term, and the invoiced amounts are treated as deferred revenues and are recognized ratably over the term of each subscription. Historically, at the end of each subscription period, customers have typically renewed their subscriptions.

We market and sell our solutions to enterprises, government entities and to small and medium size businesses across a broad range of industries, including education, financial services, government, healthcare, insurance, manufacturing, media, retail, technology and utilities. As of March 31, 2012, we had over 5,700 customers in more than 100 countries, including a majority of each of the Forbes Global 100 and Fortune 100. In each of 2009, 2010 and 2011, no one customer or channel partner accounted for more than 10% of our revenues. In 2009, 2010 and 2011, approximately 69%, 67% and 67%, respectively, of our revenues were derived from customers in the United States. We sell our solutions to enterprises and government entities primarily through our field sales force and to small and medium-sized businesses through our inside sales force. We generate a significant portion of sales through our channel partners, including managed service providers, value-added resellers and consulting firms in the United States and internationally.

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

Key Factors Affecting Our Business

We believe that the growth of our business and our future success are dependent upon many factors, including our ability to expand our customer base, expand adoption of our solutions and successfully invest in our growth. While each of these areas presents significant opportunities for us, they also pose significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results.

Expanding our Customer Base

Our growth depends on our ability to retain existing customers and attract new customers. Our customer base has grown as the market for cloud solutions for IT security and compliance expanded, as we have increased market awareness of our company and solutions, as we have introduced new solutions and as a result of the efforts of our sales force. However, the market for cloud solutions for IT security and compliance is at an early stage, and may not continue to grow as we expect. In addition, we have a limited operating history, particularly in certain markets and solution offerings, and we will need to continue to enhance market awareness of our IT security and compliance solutions. We must also continue to successfully introduce new solutions. In addition, we must continue to effectively leverage our sales force to expand the adoption of our solutions by existing customers and new customers. If we fail to do one or more of the foregoing, we may not be able to attract new customers, or existing customers may not renew their subscriptions or purchase additional solutions, which could cause our revenues to grow more slowly than expected, if at all.

Expanding Adoption of our Solutions

We derived 96%, 92%, 90% and 88% of our revenues in 2009, 2010, 2011 and the three months ended March 31, 2012, respectively, from subscriptions to our QualysGuard Vulnerability Management solution, and we expect to continue to derive a significant majority of our revenues from sales of subscriptions to this solution for the foreseeable future. We will need to increase the revenues that we derive from our current and future solutions other than QualysGuard Vulnerability Management for our business and revenues to grow as we expect. Revenues from our other solutions, including our Web Application Scanning, Policy Compliance, PCI Compliance, Malware Detection Service and Qualys SECURE Seal, have been relatively modest compared to revenues from our QualysGuard Vulnerability Management solution. Our ability to successfully introduce new solutions in the future, and generate significant revenue from solutions other than QualysGuard Vulnerability Management, will depend upon a number of factors, some of which are beyond our control, including anticipating market needs and opportunities, developing new solutions that address those needs and opportunities, market awareness of our company and our new solutions, government regulations, industry standards, the market for IT spending and economic conditions. The foregoing factors, among others, will impact our ability to sell subscriptions of additional solutions to existing and new customers. If we are unable to sell subscriptions of additional solutions to existing and new customers, our operating results would be harmed.

Investing in Growth

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

Key Metrics

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

Four-Quarter Bookings

We monitor Four-Quarter Bookings, a non-GAAP financial measure, which is calculated as revenues for the preceding four quarters plus the change in current deferred revenues for the same period. We believe this metric provides an additional tool for investors to use in assessing our business performance in a way that more fully reflects current business trends than reported revenues and reduces the variations in any particular quarter caused by customer subscription renewals. We believe Four-Quarter Bookings reflects the material sales trends for our business because it includes sales of subscriptions to new customers, as well as subscription renewals and upsells of additional subscriptions to existing customers. Since over 80% of our subscriptions are one year in length, we use current deferred revenues in this metric in order to focus on revenues to be generated over the next four quarters and to exclude the impact of multi-year subscriptions. Under our revenue recognition policy, we record subscription fees as deferred revenues and recognize revenues ratably over the subscription periods. For this reason, substantially all of our revenues for a period are typically generated from subscriptions commencing in prior periods. In addition, subscription renewals may vary during the year based on the date of our customers original subscriptions, customer requests to modify subscription periods or other factors. See the section titled Selected Consolidated Financial and Other Data Non-GAAP Financial Measures for a reconciliation of revenues to Four-Quarter Bookings.

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

Adjusted EBITDA

We monitor Adjusted EBITDA, a non-GAAP financial measure, to analyze our financial results and believe that it is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance. We believe that Adjusted EBITDA helps illustrate underlying trends in our business that

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could otherwise be masked by the effect of the income or expenses that we exclude in Adjusted EBITDA. Furthermore, we use this measure to establish budgets and operational goals for managing our business and evaluating our performance. We also believe that Adjusted EBITDA provides an additional tool for investors to use in comparing our recurring core business operating results over multiple periods with other companies in our industry.

Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with U.S. GAAP. We calculate Adjusted EBITDA as net income (loss) before (1) other (income) expense, net, which includes interest income, interest expense and other income and expense, (2) provision for income taxes, (3) depreciation and amortization of property and equipment, (4) amortization of intangible assets and (5) stock-based compensation. See the section titled Selected Consolidated Financial and Other Data Non-GAAP Financial Measures for a reconciliation of net income (loss) to Adjusted EBITDA.

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

Key Components of Results of Operations

Revenues

We derive revenues from the sale of subscriptions to our security and compliance solutions, which are delivered on our cloud platform. We generate the substantial majority of our revenues through the sale of subscriptions to our QualysGuard Vulnerability Management solution, and we have a growing number of customers who have purchased our additional solutions. Subscriptions to our solutions allow customers to access our cloud security and compliance solutions through a unified, web-based interface. Customers generally enter into one year renewable subscriptions. The subscription fee entitles the customer to an unlimited number of scans for a specified number of networked devices or web applications and, if requested by a customer as part of their subscription, a specified number of physical or virtual scanner appliances. Our physical and virtual scanner applicances are requested by certain customers as part of their subscriptions in order to scan IT infrastructures within their firewalls and do not function without, and are not sold separately from, subscriptions for our solutions. Customers are required to return physical scanner appliances if they do not renew their subscriptions.

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

Cost of Revenues

Cost of revenues consists primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation, for employees who operate our data centers and provide support services to our customers. Other expenses include depreciation of data center equipment and physical scanner appliances provided to certain customers as part of their subscriptions, expenses related to the use of third-party data centers, amortization of third-party technology licensing fees, fees paid to contractors who supplement or support our operations center

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personnel and overhead allocations. We expect to make significant capital investments to expand our data center operations, which will increase the cost of revenues in absolute dollars.

Operating Expenses

Research and Development

Research and development expenses consist primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation, for our research and development teams. Other expenses include third-party contractor fees, amortization of intangibles related to prior acquisitions and overhead allocations. All research and development costs are expensed as incurred. We expect to continue to devote substantial resources to research and development in an effort to continuously improve our existing solutions as well as develop new solutions and expect that research and development expenses will increase in absolute dollars.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel expenses, comprised of salaries, benefits, sales commissions, performance-based compensation and stock-based compensation for our worldwide sales and marketing teams. Other expenses include marketing and promotional events, lead-generation marketing programs, public relations, travel and overhead allocations. All costs are expensed as incurred, including sales commissions. Sales commissions are expensed in the quarter in which the related order is received and are paid in the month subsequent to the end of that quarter, which results in increased expenses prior to the recognition of related revenues. Our new sales personnel are typically not immediately productive, and the resulting increase in sales and marketing expenses we incur when we add new personnel may not result in increased revenues if these new sales personnel fail to become productive. The timing of our hiring of sales personnel and the rate at which they generate incremental revenues may affect our future operating results. We expect that sales and marketing expenses will increase in absolute dollars.

General and Administrative

General and administrative expenses consist primarily of personnel expenses, comprised of salaries, benefits, performance-based compensation and stock-based compensation, for our executive, finance and accounting, legal, human resources and internal information technology support teams as well as professional services fees and overhead allocations. We anticipate that we will incur additional expenses for personnel and for professional services, including auditing and legal services, insurance and other corporate governance-related expenses, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002, related to operating as a public company. We expect that general and administrative expenses will increase in absolute dollars, especially in the near term, as we continue to add personnel to support our growth and operate as a public company.

Other Income (Expense), Net

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

Provision for Income Taxes

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

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the tax impact of timing differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the statutory rate change is enacted into law.

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

Results of Operations

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

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

(1) Includes stock-based compensation as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2009	2010	2011	2011	2012
				(unaudited)	
			(in thousands)		
Cost of revenues	$ 47	$ 80	$ 143	$ 18	$ 54
Research and development	315	359	499	113	142
Sales and marketing	284	467	578	118	199

General and administrative	474	964	927	228	275
Total stock-based compensation	$ 1,120	$ 1,870	$ 2,147	$ 477	$ 670

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The following table sets forth selected consolidated statements of operations data for each of the periods presented as a percentage of revenues.

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

Comparison of Three Months Ended March 31, 2011 and 2012

Revenues

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

Revenues increased $3.5 million in the three months ended March 31, 2012 compared to the three months ended March 31, 2011. Revenues from existing customers at or prior to March 31, 2011 grew $0.6 million to $18.3 million during the three months ended March 31, 2012 due to increased subscriptions. Subscriptions from new customers added in the twelve months ended March 31, 2012 contributed $2.9 million to the increase in revenues. Of the total increase of $3.5 million, $2.3 million was from customers in the United States and the remaining $1.2 million was from customers in foreign countries. The growth in revenues reflects increased demand for our solutions.

Cost of Revenues

	Three Months Ended March 31,		Change	
	2011	2012	$	%
	(unaudited) (in thousands, except percentages)			

Cost of revenues	$ 2,873	$ 4,160	$ 1,287	45%
Percentage of revenues	16%	20%		
Gross profit percentage	84%	80%		

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

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

Research and Development Expenses

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

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

Sales and Marketing Expenses

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

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

General and Administrative Expenses

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

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

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Other Income (Expense), Net

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

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

Provision for Income Taxes

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

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

Comparison of Years Ended December 31, 2010 and 2011

Revenues

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

Revenues increased $10.8 million in 2011 compared to 2010. Revenues from existing customers at or prior to December 31, 2010 grew $5.8 million to $71.2 million in 2011 due to increased subscriptions. Subscriptions from new customers added in 2011 contributed $5.0 million to the increase in revenues. Of the total increase of $10.8 million, $7.4 million was from customers in the United States and the remaining $3.4 million was from customers in foreign countries. The growth in revenues reflects increased demand for our solutions.

Cost of Revenues

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

Gross profit percentage	83%	83%

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

Research and Development Expenses

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

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

Sales and Marketing Expenses

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

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

General and Administrative Expenses

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

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

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Other Income (Expense), Net