QUALYS, INC.
Form 10-Q
August 03, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2017
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 001-35662

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

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

1600 Bridge Parkway, Redwood City, California 94065
(Address of principal executive offices, including zip code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

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

The number of shares of the Registrant's common stock outstanding as of July 31, 2017 was 37,521,887.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Qualys, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in thousands, except share and per share data)

	June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$130,572	$86,737
Short-term investments	148,290	157,119
Accounts receivable, net of allowance of $687 and $702 as of June 30, 2017 and December 31, 2016, respectively	46,359	47,024
Prepaid expenses and other current assets	19,055	9,808
Total current assets	344,276	300,688
Long-term investments	45,003	45,725
Property and equipment, net	42,768	39,401
Deferred tax assets, net	35,622	16,590
Intangible assets, net	801	987
Goodwill	317	317
Restricted cash	1,200	1,200
Other noncurrent assets	1,959	2,096
Total assets	$471,946	$407,004
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$1,924	$2,051
Accrued liabilities	13,836	13,317
Deferred revenues, current	124,738	114,964
Total current liabilities	140,498	130,332
Deferred revenues, noncurrent	16,701	15,528
Other noncurrent liabilities	8,685	2,731
Total liabilities	165,884	148,591
Commitments and contingencies (Note 5)		
Stockholders’ equity:		
Preferred stock, $0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.001 par value; 1,000,000,000 shares authorized; 37,501,697 and 35,841,001 shares issued and outstanding at June 30, 2017 and December 31, 2016	38	36
Additional paid-in capital	277,020	266,794
Accumulated other comprehensive loss	(235)	(156)
Retained Earnings (Accumulated deficit)	29,239	(8,261)
Total stockholders’ equity	306,062	258,413
Total liabilities and stockholders’ equity	$471,946	$407,004

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Revenues	$55,302	$48,466	$108,423	$94,714
Cost of revenues	12,153	10,260	24,447	19,811
Gross profit	43,149	38,206	83,976	74,903
Operating expenses:				
Research and development	10,525	9,488	20,348	17,597
Sales and marketing	15,383	14,728	31,397	28,895
General and administrative	8,232	8,278	15,566	15,102
Total operating expenses	34,140	32,494	67,311	61,594
Income from operations	9,009	5,712	16,665	13,309
Other income (expense), net:				
Interest expense	(1)	(1)	(3)	(14)
Interest income	541	290	1,022	540
Other expense, net	(180)	(249)	(206)	(318)
Total other income (expense), net	360	40	813	208
Income before income taxes	9,369	5,752	17,478	13,517
(Benefit from) provision for income taxes	2,167	2,214	(11,654)	5,196
Net income	$7,202	$3,538	$29,132	$8,321
Net income per share:				
Basic	$0.19	$0.10	$0.79	$0.24
Diluted	$0.18	$0.09	$0.74	$0.22
Weighted average shares used in computing net income per share:				
Basic	37,277	35,120	36,887	34,869
Diluted	39,535	38,143	39,207	37,988

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$7,202	$3,538	$29,132	$8,321
Change in foreign currency translation loss, net of zero tax	—	—	—	—
Available-for-sale investments:				
Change in net unrealized gain (loss) on investments, net of tax	(29)	80	(80)	273
Less: reclassification adjustment for net realized gain included in net income	20	2	2	50
Net change, net of tax	(9)	82	(78)	323
Other comprehensive income (loss), net	(9)	82	(78)	323
Comprehensive income	$7,193	$3,620	$29,054	$8,644

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net income	$29,132	$8,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,783	7,828
Bad debt expense	296	106
Loss on disposal of property and equipment	2	39
Stock-based compensation	10,779	10,019
Amortization of premiums and accretion of discounts on investments	850	390
Excess tax benefits from stock-based compensation	—	(3,713)
Deferred income taxes	(20,897)	(85)
Excess tax benefits included in deferred tax assets	8,368	—
Changes in operating assets and liabilities:		
Accounts receivable	369	1,833
Prepaid expenses and other assets	(1,067)	(83)
Accounts payable	(206)	(2)
Accrued liabilities	109	4,886
Deferred revenues	10,947	4,237
Other non-current liabilities	477	685
Net cash provided by operating activities	48,942	34,461
Cash flows from investing activities:		
Purchases of investments	(102,665)	(87,364)
Sales and maturities of investments	111,288	75,156
Purchases of property and equipment	(13,179)	(8,966)
Net cash used in investing activities	(4,556)	(21,174)
Cash flows from financing activities:		
Proceeds from exercise of stock options	14,603	9,496
Excess tax benefits from stock-based compensation	—	3,713
Payments for taxes related to net share settlement of equity awards	(15,154)	—
Net cash (used in) provided by financing activities	(551)	13,209
Net increase in cash and cash equivalents	43,835	26,496
Cash and cash equivalents at beginning of period	86,737	91,698
Cash and cash equivalents at end of period	$130,572	$118,194
Supplemental cash flow disclosures:		
Purchases of property and equipment recorded in accounts payable and accrued liabilities	$1,193	$7,379
Cash paid for income taxes	$540	$631
Not yet received tenant allowance recorded in other assets, accrued liabilities and other non-current liabilities	$8,076	$—

See accompanying Notes to Condensed Consolidated Financial Statements

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Qualys, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. The Company and Summary of Significant Accounting Policies

Description of Business

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared by the Company in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information as well as the instructions to Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of December 31, 2016, included herein, was derived from the audited financial statements as of that date but does not include all disclosures, including notes required by U.S. GAAP. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the financial position, results of operations and cash flows for the interim periods. The results of operations for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results of operations expected for the entire year ending December 31, 2017 or for any other future annual or interim period. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC on February 24, 2017.

Reclassification

The Company reclassified certain information technology expenses across the functions that benefit from their support. For the three months ended June 30, 2016, the Company reclassified $0.8 million out of general and administrative expenses. Of this amount the Company reclassified $0.2 million to cost of revenues, $0.3 million to research and development and $0.3 million to sales and marketing. For the six months ended June 30, 2016, the Company reclassified $1.4 million out of general and administrative expenses. Of this amount the Company reclassified $0.3 million to cost of revenues, $0.6 million to research and development and $0.5 million to sales and marketing.

Recently adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, (ASU 2016-09) intended to simplify and improve various aspects related to how employee-share based payment transactions are accounted for and presented in the financial statements. The ASU addresses income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. This guidance is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The Company adopted this guidance in its first quarter of 2017 and elected to apply this adoption prospectively. Prior periods have not been adjusted. The Company has made the accounting policy election to continue to estimate forfeitures expected to occur to determine the amount of stock-based compensation expense to record each period. See Note 8 for information regarding the impact on the Company's financial statements.

Recent Accounting Pronouncements
Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09), as amended, which will supersede nearly all existing revenue recognition guidance. Under ASU 2014-09, an entity is required to recognize revenue upon transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. ASU 2014-09 defines a five-step process in order to achieve this core principle, which may require the use of judgment and estimates, and also requires expanded qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and estimates used.

The FASB has recently issued several amendments to the new standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. The amendments include ASU 2016-08, Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations, which was issued in March 2016, and clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09, and ASU 2016-10, Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing, which was issued in April 2016, and amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The new standard permits adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The Company will adopt the new standard effective January 1, 2018.

The Company is continuing to assess the impact of adopting ASU 2014-09 on its financial position, results of operations, cash flows and related disclosures and has not yet determined whether the effect will be material. Additionally, as the Company continues to assess the new standard along with industry trends and additional interpretive guidance, the Company may adjust its implementation plan accordingly. The Company currently believes the new standard will have the most significant impacts relating to the potential deferral of sales commissions and contract costs and the accounting for financing components of certain long term contracts.

The Company currently plans to adopt using the modified retrospective approach.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which will impact certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance will impact the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. This guidance is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires, among other things, lease assets and lease liabilities arising from leases, including operating leases, to be recognized on the balance sheet. In addition, this ASU requires disclosing key information about leasing arrangements. This guidance supersedes existing lease guidance and is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Pursuant to the leasing criteria, most of our leased space and equipment leases will be capitalized assets on the balance sheet with an offsetting financing obligation. In the statement of operations, what was formerly rent expense will be bifurcated into depreciation and interest expense. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force), to provide guidance on the presentation of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in existing practice. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact of the adoption of this update on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents and restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for public business entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 on a prospective basis. Early adoption is permitted. The Company does not expect the standard to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit’s fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTE 2. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For certain of the Company’s financial instruments, including certain cash equivalents, accounts receivable, accounts payable, and other current liabilities, the carrying amounts approximate their fair values due to the relatively short maturity of these balances.

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

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

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

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

The Company's financial instruments consist of assets and liabilities measured using Level 1 and 2 inputs. Level 1 assets include a highly liquid money market fund, which is valued using unadjusted quoted prices that are available in an active market for an identical asset. Level 2 assets include fixed-income U.S. government agency securities, commercial paper, corporate bonds, asset-backed securities and derivative financial instruments consisting of foreign currency forward contracts. The securities, bonds and commercial paper are valued using prices from independent pricing services based on quoted prices in active markets for similar instruments or on industry models using data inputs such as interest rates and prices that can be directly observed or corroborated in active markets. The foreign currency forward contracts are valued using observable inputs, such as quotations on forward foreign exchange points and foreign interest rates.

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

	June 30, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$105,943	$ —	$ —	$105,943
Money market funds	20,233	—	—	20,233
U.S. government agencies	4,396	—	—	4,396
Total	130,572	—	—	130,572
Short-term investments:				
Commercial paper	3,245	—	—	3,245
Corporate bonds	25,997	4	(23)	25,978
U.S. government agencies	119,242	—	(175)	119,067
Total	148,484	4	(198)	148,290
Long-term investments:				
Asset-backed securities	3,472	—	(1)	3,471
U.S. government agencies	14,274	—	(30)	14,244
Corporate bonds	27,298	20	(30)	27,288
Total	45,044	20	(61)	45,003
Total	$324,100	$ 24	$ (259)	$323,865

	December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
Cash and cash equivalents:				
Cash	$72,673	$ —	$ —	$72,673
Money market funds	473	—	—	473
Commercial paper	13,591	—	—	13,591
Total	86,737	—	—	86,737
Short-term investments:				
Commercial paper	14,782	5	—	14,787
Corporate bonds	13,490	—	(11)	13,479
Asset-backed securities	1,235			1,235

U.S. government agencies	127,660		(42)	127,618
Total	157,167	5	(53)	157,119
Long-term investments:				
Asset-backed securities	5,091	2	—	5,093
U.S. government agencies	29,501	—	(71)	29,430
Corporate bonds	11,243	—	(41)	11,202
Total	45,835	2	(112)	45,725
Total	$289,739	$ 7	$ (165)	$289,581

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

The following table shows the changes to accumulated other comprehensive income (loss) for the six months ended June 30, 2017 (in thousands):

	Unrealized Gain (Loss), net on Investments
Balance at December 31, 2016	$ (156)
Change in net realized gain (loss) on investments	(80)
Amounts reclassified for net realized gain (loss) included in net income	2
Other comprehensive income (loss), net	(78)
Balance at June 30, 2017	$ (234)

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

	June 30, 2017			
	Level 1	Level 2	Level 3	Fair Value
	(in thousands)			
Commercial paper	$—	$3,245	$ —	$3,245
U.S. government agencies	—	137,709	—	137,709
Corporate bonds	—	53,264	—	53,264
Asset-backed securities	—	3,471	—	3,471
Total	$—	$197,689	$ —	$197,689

	December 31, 2016			
	Level 1	Level 2	Level 3	Fair Value
	(in thousands)			
Commercial paper	$—	$28,378	$ —	$28,378
U.S. government agencies	—	157,048	—	157,048
Corporate bonds	—	24,681	—	24,681
Asset-backed securities	—	6,328	—	6,328
Total	$—	$216,435	$ —	$216,435

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

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

	June 30, 2017			
	Mature within One Year	After One Year through Two Years	Over Two Years	Fair Value
	(in thousands)			
Commercial paper	$3,245	$—	$—	$3,245
U.S. government agencies	118,057	15,256	—	133,313
Corporate bonds	25,978	15,169	12,117	53,264
Asset-backed securities	2,622	850	—	3,472
Total	$149,902	$31,275	$12,117	$193,294

Derivative Financial Instruments

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

At June 30, 2017, the Company had two outstanding forward contracts with notional amounts of 7 million Euros and 4.8 million British Pounds, which expire on July 31, 2017. At December 31, 2016, the Company had two outstanding forward contracts with notional amounts of 7.6 million Euros and 4.6 million British Pounds, which expired on February 2, 2017. These forward contracts were entered into at the end of each month, and thus the fair value of these contracts was $0 at June 30, 2017 and December 31, 2016. These derivatives did not meet the criteria to be designated as hedges. These instruments were valued using Level 2 inputs.

The following summarizes the gains (losses) recognized in Other expense, net on the condensed consolidated statement of operations, from forward contracts and other foreign currency transactions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(in thousands)			
Net loss from forward contracts	$(865)	$552	$(1,122)	$74
Other foreign currency transactions gain	733	(721)	993	(274)
Total foreign exchange gain (loss), net	$(132)	$(169)	$(129)	$(200)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 3. Property and Equipment, Net

Property and equipment consists of the following:

	June 30, 2017	December 31, 2016
	(in thousands)	
Computer equipment	$65,579	$ 57,295
Computer software	20,107	19,716
Furniture, fixtures and equipment	3,966	3,425
Scanner appliances	14,434	14,776
Leasehold improvements	7,298	3,694
Total property and equipment	111,384	98,906
Less: accumulated depreciation and amortization	(68,616)	(59,505)
Property and equipment, net	$42,768	$ 39,401

Physical scanner appliances and other computer equipment that are or will be subject to subscriptions by customers had a net carrying value of $7.8 million and $8.3 million at June 30, 2017 and December 31, 2016, respectively, including assets that have not been placed in service of $0.6 million and $1.3 million, respectively. Depreciation and amortization expense relating to property and equipment was $4.9 million and $3.9 million for the three months ended June 30, 2017 and 2016, respectively, and $9.6 million and $7.6 million for the six months ended June 30, 2017 and 2016 respectively.

NOTE 4. Goodwill and Intangible Assets, Net

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

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

			June 30, 2017		December 31, 2016	
	Estimated Lives	Cost	Accumulated Amortization	Net Book Value	Accumulated Amortization	Net Book Value
Existing technology	7 years	$1,910	$(1,865)	$ 45	$(1,728)	$ 182
Patent license	14 years	1,388	(672)	716	(623)	765
Total intangibles subject to amortization		$3,298	$(2,537)	761	$(2,351)	947
Intangible assets not subject to amortization				40		40
Total intangible assets, net				$ 801		$ 987

Intangibles amortization expense was $0.1 million for each of the three months ended June 30, 2017 and 2016 and $0.2 million for each of the six months ended June 30, 2017 and 2016.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

As of June 30, 2017, the Company expects amortization expense in future periods to be as follows (in thousands):

Remainder of 2017	$	96
2018	100	
2019	100	
2020	100	
2021	100	
2022 and thereafter	265	
Total expected future amortization expense	$	761

Goodwill, which is not subject to amortization, totaled $0.3 million as of June 30, 2017 and December 31, 2016.

NOTE 5. Commitments and Contingencies

Leases

The Company leases cert