UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2022

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-35580

ServiceNow, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**20-2056195**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

ServiceNow, Inc.
2225 Lawson Lane
Santa Clara, California 95054
(Address, including zip code, of Registrant's principal executive offices)

(408) 501-8550
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and formal fiscal year, if changed since last report.)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value $0.001 per share	NOW	The New York Stock Exchange

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

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

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

As of September 30, 2022, there were approximately 202 million shares of the Registrant’s Common Stock outstanding.

TABLE OF CONTENTS

PART I

ITEM 1. FINANCIAL STATEMENTS

SERVICENOW, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions)

	September 30, 2022	December 31, 2021
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 1,248	$ 1,728
Short-term investments	2,708	1,576
Accounts receivable, net	898	1,390
Current portion of deferred commissions	330	303
Prepaid expenses and other current assets	292	223
Total current assets	5,476	5,220
Deferred commissions, less current portion	650	623
Long-term investments	1,517	1,630
Property and equipment, net	914	766
Operating lease right-of-use assets	581	591
Intangible assets, net	234	287
Goodwill	794	777
Deferred tax assets	604	692
Other assets	336	212
Total assets	$ 11,106	$ 10,798
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 195	$ 89
Accrued expenses and other current liabilities	657	850
Current portion of deferred revenue	3,491	3,836
Current portion of operating lease liabilities	89	82
Current debt, net	—	92
Total current liabilities	4,432	4,949
Deferred revenue, less current portion	63	63
Operating lease liabilities, less current portion	551	556
Long-term debt, net	1,485	1,484
Other long-term liabilities	52	51
Total liabilities	6,583	7,103
Commitments and contingencies		
Stockholders' equity:		
Common stock	—	—
Additional paid-in capital	4,507	3,665
Accumulated other comprehensive income (loss)	(172)	34
Retained earnings (accumulated deficit)	188	(4)
Total stockholders' equity	4,523	3,695
Total liabilities and stockholders' equity	$ 11,106	$ 10,798

See accompanying notes to condensed consolidated financial statements

SERVICENOW, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions, except number of shares which are reflected in thousands and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Subscription	$ 1,742	$ 1,427	$ 5,031	$ 4,050
Professional services and other	89	85	274	232
Total revenues	1,831	1,512	5,305	4,282
Cost of revenues[1]:				
Subscription	301	264	863	740
Professional services and other	99	86	295	239
Total cost of revenues	400	350	1,158	979
Gross profit	1,431	1,162	4,147	3,303
Operating expenses[1]:				
Sales and marketing	697	579	2,092	1,660
Research and development	456	358	1,314	1,005
General and administrative	187	151	541	416
Total operating expenses	1,340	1,088	3,947	3,081
Income from operations	91	74	200	222
Interest expense	(8)	(7)	(20)	(21)
Other income, net	19	1	36	16
Income before income taxes	102	68	216	217
Provision for income taxes	22	5	41	13
Net income	$ 80	$ 63	$ 175	$ 204
Net income per share - basic	$ 0.39	$ 0.32	$ 0.87	$ 1.03
Net income per share - diluted	$ 0.39	$ 0.31	$ 0.86	$ 1.00
Weighted-average shares used to compute net income per share - basic	202,045	198,600	201,026	197,680
Weighted-average shares used to compute net income per share - diluted	203,121	203,124	203,350	202,729
Other comprehensive income (loss):				
Foreign currency translation adjustments	$ (51)	$ (20)	$ (125)	$ (37)
Unrealized gain (loss) on investments, net of tax	(21)	(2)	(81)	(9)
Other comprehensive income (loss)	(72)	(22)	(206)	(46)
Comprehensive income (loss)	$ 8	$ 41	$ (31)	$ 158

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenues:				
Subscription	$ 41	$ 33	$ 116	$ 95
Professional services and other	$ 17	$ 15	51	43
Operating expenses:				
Sales and marketing	$ 119	$ 101	337	293
Research and development	$ 127	$ 102	368	288
General and administrative	$ 57	$ 40	166	110

See accompanying notes to condensed consolidated financial statements

SERVICENOW, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions, except number of shares which are reflected in thousands)
(unaudited)

	Three Months Ended September 30, 2022						Three Months Ended September 30, 2021					
	Common Stock						Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at beginning of the period	**201,614**	**$ —**	**$ 4,186**	**$ 108**	**$ (100)**	**$ 4,194**	**198,135**	**$ —**	**$ 3,298**	**$ (93)**	**$ 70**	**$ 3,275**
Common stock issued under employee stock plans	751	—	71	—	—	71	860	—	71	—	—	71
Taxes paid related to net share settlement of equity awards	—	—	(111)	—	—	(111)	—	—	(142)	—	—	(142)
Stock-based compensation	—	—	361	—	—	361	—	—	290	—	—	290
Settlement of 2022 Notes conversion feature	—	—	—	—	—	—	—	—	(25)	—	—	(25)
Benefit from exercise of 2022 Note Hedge	—	—	—	—	—	—	—	—	24	—	—	24
Other comprehensive income (loss), net of tax	—	—	—	—	(72)	(72)	—	—	—	—	(22)	(22)
Net income	—	—	—	80	—	80	—	—	—	63	—	63
Balance at end of the period	**202,365**	**$ —**	**$ 4,507**	**$ 188**	**$ (172)**	**$ 4,523**	**198,995**	**$ —**	**$ 3,516**	**$ (30)**	**$ 48**	**$ 3,534**

	Nine Months Ended September 30, 2022						Nine Months Ended September 30, 2021					
	Common Stock						Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at beginning of the period	**199,608**	**$ —**	**$ 3,665**	**$ (4)**	**$ 34**	**$ 3,695**	**195,845**	**$ —**	**$ 2,974**	**$ (234)**	**$ 94**	**$ 2,834**
Cumulative-effect adjustment from adoption of Accounting Standards Update (ASU) 2020-06	—	—	(19)	17	—	(2)	—	—	—	—	—	—
Common stock issued under employee stock plans	2,154	—	177	—	—	177	2,614	—	166	—	—	166
Taxes paid related to net share settlement of equity awards	—	—	(352)	—	—	(352)	—	—	(457)	—	—	(457)
Stock-based compensation	—	—	1,036	—	—	1,036	—	—	828	—	—	828
Shares granted related to business combination	—	—	—	—	—	—	—	—	6	—	—	6
Settlement of 2022 Warrants	603	—	—	—	—	—	536	—	—	—	—	—
Settlement of 2022 Notes conversion feature	—	—	(233)	—	—	(233)	—	—	(216)	—	—	(216)
Benefit from exercise of 2022 Note Hedge	—	—	233	—	—	233	—	—	215	—	—	215
Other comprehensive income (loss), net of tax	—	—	—	—	(206)	(206)	—	—	—	—	(46)	(46)
Net income	—	—	—	175	—	175	—	—	—	204	—	204
Balance at end of the period	**202,365**	**$ —**	**$ 4,507**	**$ 188**	**$ (172)**	**$ 4,523**	**198,995**	**$ —**	**$ 3,516**	**$ (30)**	**$ 48**	**$ 3,534**

See accompanying notes to condensed consolidated financial statements

SERVICENOW, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 175	$ 204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	315	346
Amortization of deferred commissions	261	211
Stock-based compensation	1,038	828
Deferred income taxes	(3)	(21)
Repayments of convertible senior notes attributable to debt discount	—	(15)
Other	9	37
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	445	219
Deferred commissions	(369)	(344)
Prepaid expenses and other assets	(73)	(78)
Accounts payable	116	39
Deferred revenue	(156)	47
Accrued expenses and other liabilities	(197)	(126)
Net cash provided by operating activities	$ 1,561	$ 1,347
Cash flows from investing activities:		
Purchases of property and equipment	(406)	(292)
Business combinations, net of cash acquired	(57)	(778)
Purchases of investments	(2,811)	(1,741)
Purchases of non-marketable investments	(138)	(28)
Sales and maturities of investments	1,700	1,579
Other	3	12
Net cash used in investing activities	$ (1,709)	$ (1,248)
Cash flows from financing activities:		
Repayments of convertible senior notes attributable to principal	(94)	(59)
Proceeds from employee stock plans	177	165
Taxes paid related to net share settlement of equity awards	(352)	(457)
Net cash used in financing activities	$ (269)	$ (351)
Foreign currency effect on cash, cash equivalents and restricted cash	(61)	(21)
Net change in cash, cash equivalents and restricted cash	(478)	(273)
Cash, cash equivalents and restricted cash at beginning of period	1,732	1,679
Cash, cash equivalents and restricted cash at end of period	$ 1,254	$ 1,406
Cash, cash equivalents and restricted cash at end of period:		
Cash and cash equivalents	$ 1,248	$ 1,400
Restricted cash included in prepaid expenses and other current assets	6	6
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 1,254	$ 1,406
Supplemental disclosures of other cash flow information:		
Interest paid	$ 23	$ 36
Income taxes paid, net of refunds	$ 33	$ 46
Non-cash investing and financing activities:		
Settlement of 2022 Notes conversion feature	$ 233	$ 216
Benefit from exercise of 2022 Note Hedge	$ 233	$ 215
Property and equipment included in accounts payable, accrued expenses and other liabilities	$ 34	$ 54

See accompanying notes to condensed consolidated financial statements

SERVICENOW, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Unless the context requires otherwise, references in this report to "ServiceNow," the "Company," "we," "us," and "our" refer to ServiceNow, Inc. and its consolidated subsidiaries.

(1) Description of the Business

ServiceNow was founded on a simple premise: a better technology platform will help work flow better. We help global enterprises across industries, universities and governments to digitize their workflows. We categorize the workflows we provide into four primary areas: Technology (formerly known as Information Technology), Employee, Customer and Creator. The products under each of our workflows help customers connect work across systems and silos to enable great experiences for people. The Now Platform is uniquely positioned to enable our customers' digital transformation from non-integrated enterprise technology solutions with manual and disconnected processes and activities, to integrated enterprise technology solutions with automation and connected processes and activities, which increases our customers' resiliency and security and delivers additional value to their employees and consumers.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements due to the permitted exclusion of certain disclosures for interim reporting. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary under GAAP for fair statement of results for the interim periods presented have been included. As a result of displaying amounts in millions, rounding differences may exist in the consolidated financial statements and footnote tables. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2021 is derived from audited consolidated financial statements; however, it does not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on February 3, 2022.

Principles of Consolidation

The accompanying condensed consolidated financial statements have been prepared in conformity with GAAP, and include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Such management estimates and assumptions include, but are not limited to, standalone selling price for each distinct performance obligation included in customer contracts with multiple performance obligations, the period of benefit for deferred commissions, valuation of intangible assets, the useful life of property and equipment and identifiable intangible assets, stock-based compensation expense and income taxes. Actual results could differ from those estimates. We assessed the impact of COVID-19 on the estimates and assumptions and determined there was no material impact.

In January 2022, we completed an assessment of the useful life of our data center equipment and determined we should increase the estimated useful life of data center equipment from three years to four years. This change in accounting estimate was effective beginning fiscal year 2022. Based on the carrying amount of data center equipment included in property and equipment, net as of December 31, 2021, the effect of this change in estimate for the three and nine months ended September 30, 2022, was a reduction in depreciation expense of $20 million and $60 million, respectively, and an increase in net income of $18 million and $54 million, or $0.10 and $0.27 per share basic and $0.09 and $0.27 per share diluted, respectively.

Significant Accounting Policies

There were no significant changes to our significant accounting policies disclosed in “Note 2 – Summary of Significant Accounting Policies” of our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on February 3, 2022, other than the change in useful life of our data center equipment, discussed above.

Concentration of Credit Risk and Significant Customers

Credit risk arising from accounts receivable is mitigated to a certain extent due to our large number of customers and their dispersion across various industries and geographies. As of September 30, 2022, we had one customer, a US federal channel partner and systems integrator, that represented 22% of our accounts receivable balance and no customers that individually exceeded 10% of our total revenues in any of the periods presented. As of December 31, 2021, there were no customers that represented more than 10% of our accounts receivable balance. Our customers in Russia represented an immaterial portion of our total consolidated revenues and our accounts receivable balance in each of the periods presented. For purposes of assessing concentration of credit risk and significant customers, a group of customers under common control or customers that are affiliates of each other are regarded as a single customer.

Recently Adopted Accounting Pronouncements

Debt with Conversion Options

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-06, “Debt–Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging–Contracts in Entity’s Own Equity (Subtopic 815-40)” to simplify the accounting for convertible instruments and contracts on an entity’s own equity. The standard results in our 2022 Notes being accounted for as a single unit of debt and requires the if-converted method to calculate diluted earnings per share calculation. We adopted this standard effective January 1, 2022 using a modified retrospective method, under which the basis of all convertible instruments outstanding at adoption have been adjusted to the amounts that would have been recorded had the new guidance been applied from inception. The previously recorded equity component of the convertible instrument outstanding and amortization of the debt discount and issuance costs classified as equity are reclassified from equity to debt through an adjustment to the opening balance of accumulated deficit as of January 1, 2022, which will result in reduced interest expense in future periods. Adoption of the standard resulted in a decrease to accumulated deficit of $17 million, a decrease to additional paid-in capital of $19 million and an increase to debt, current of $2 million.

Further, we utilized the if-converted method for purposes of diluted net income per share. The impact of the change in methodology to determine diluted net income per share of common stock attributable to common stockholders is immaterial.

Acquired Contract Assets and Contract Liabilities

In October 2021, the FASB issued ASU 2021-08, “Business Combinations (Topic 805): Accounting for Acquired Contract Assets and Contract Liabilities,” which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured in accordance with Topic 606, *Revenue from Contracts with Customers*, as if the acquirer had originated the contracts. The new standard is effective for interim and annual periods beginning after December 15, 2022. Early adoption is permitted, including in an interim period, for any period for which financial statements have not yet been issued. However, adoption in an interim period other than the first fiscal quarter requires an entity to apply the new guidance to all prior business combinations that have occurred since the beginning of the annual period in which the new guidance is adopted. We adopted this standard in the second quarter beginning April 1, 2022. The adoption had no impact to our condensed consolidated financial statements during the nine months ended September 30, 2022.

(3) Investments

Marketable Debt Securities

The following is a summary of our available-for-sale debt securities recorded within short-term and long-term investments on the condensed consolidated balance sheets (in millions):

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 595	$ —	$ (3)	$ 592
Corporate notes and bonds	3,361	—	(66)	3,295
Certificates of deposit	169	—	—	169
U.S. government and agency securities	88	—	(1)	87
Mortgage-backed and asset-backed securities	100	—	(18)	82
Total available-for-sale securities	$ 4,313	$ —	$ (88)	$ 4,225

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 528	$ —	$ —	$ 528
Corporate notes and bonds	2,418	1	(7)	2,412
Certificates of deposit	28	—	—	28
U.S. government and agency securities	140	—	—	140
Mortgage-backed and asset-backed securities	100	—	(2)	98
Total available-for-sale securities	$ 3,214	$ 1	$ (9)	$ 3,206

As of September 30, 2022, the contractual maturities of our available-for-sale debt securities, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheet and mortgage-backed and asset-backed securities that do not have a single maturity, did not exceed 36 months. The fair values of available-for-sale securities, by remaining contractual maturity, are as follows (in millions):

	September 30, 2022
Due within 1 year	$ 2,708
Due in 1 year through 5 years	1,435
Instruments not due in single maturity	82
Total	$ 4,225

As of September 30, 2022 and December 31, 2021, the fair value of available-for-sale securities in a continuous loss position totaled $4,012 million and $2,416 million, the majority of which has been in a continuous unrealized loss position for less than 12 months.

The decline in fair value below amortized cost basis was not considered other than temporary as it is more likely than not we will hold the securities until maturity or a recovery of the cost basis, and credit-related impairment losses were not material as of September 30, 2022.

Non-Marketable Equity Investments

As of September 30, 2022 and December 31, 2021, the total amount of non-marketable equity investments in privately-held companies included in other assets on our condensed consolidated balance sheets was $230 million and $99 million, respectively. Our non-marketable equity investments are accounted for using the measurement alternative which measures the investments at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes resulting from the issuance of similar or identical securities in an orderly transaction by the same issuer. Determining whether an observed transaction is similar to a security within our portfolio requires judgment based on the rights and preferences of the securities. Recording upward and downward adjustments to the carrying value of our equity securities as a result of observable price changes requires quantitative assessments of the fair value of our securities using various valuation methodologies and involves the use of estimates. We classify these fair value measurements as Level 3 within the fair value hierarchy.

On December 31, 2021, we agreed to purchase $100 million of common and preferred shares of Celonis SE (“Celonis”), a privately-held company that develops and sells process mining software, in exchange for cash. The transaction was completed in March 2022.

(4) Fair Value Measurements

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis as of September 30, 2022 (in millions):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 437	$ —	$ 437
Commercial paper	—	239	239
Corporate notes and bonds	—	21	21
Deposits	187	—	187
U.S. government and agency securities	—	6	6
Marketable securities:			
Commercial paper	—	592	592
Corporate notes and bonds	—	3,295	3,295
Certificates of deposit	—	169	169
Mortgage-backed and asset-backed securities	—	82	82
U.S. government and agency securities	—	87	87
Total	$ 624	$ 4,491	$ 5,115

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis as of December 31, 2021 (in millions):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 706	$ —	$ 706
Commercial paper	—	110	110
Corporate notes and bonds	—	28	28
Certificates of deposit	—	8	8
Deposits	235	—	235
Marketable securities:			
Commercial paper	—	528	528
Corporate notes and bonds	—	2,412	2,412
Certificates of deposit	—	28	28
Mortgage-backed and asset-backed securities	—	98	98
U.S. government and agency securities	—	140	140
Total	$ 941	$ 3,352	$ 4,293

We determine the fair value of our security holdings based on pricing from our service providers and market prices from industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) or using unobservable inputs that are supported by little or no market activity (Level 3 inputs). Our non-marketable equity investments are not included in the table above and are discussed in Note 3. See Note 8 for the fair value measurement of our derivative contracts and Note 10 for the fair value measurement of our long-term debt, which are also not included in the table above.

(5) Business Combinations

On June 15, 2022, we acquired Hitch Works, Inc., a skills mapping and intelligence company, to help our customers address talent gaps by connecting employee learning and development to workforce planning, for $57 million in a cash transaction. The purchase price was allocated based on the estimated fair value of developed technology intangible asset of $14 million (five-year estimated useful life), deferred tax liabilities of $2 million and goodwill of $45 million, which is not deductible for income tax purposes.

Goodwill is primarily attributed to the value expected from synergies resulting from the Hitch Works, Inc. acquisition. The fair values assigned to tangible and intangible assets acquired and liabilities assumed are based on management’s estimates and assumptions and may be subject to change as additional information is received. The provisional measurements of fair value for income taxes payable and deferred taxes may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the fair value measurements as soon as practicable, but not later than one year from the acquisition date.

On June 15, 2021, we acquired LightStep, Inc., a leading observability solution provider, for $512 million in a cash transaction. The purchase price was allocated based on the estimated fair value of developed technology intangible asset of $85 million (five-year estimated useful life), customer-related and brand assets of $11 million, net tangible assets of $8 million, deferred tax liabilities of $6 million and goodwill of $413 million, which is not deductible for income tax purposes.

We have included the financial results of business combinations in the consolidated financial statements from the respective dates of acquisition, which were not material. Pro forma revenue and earnings amounts on a combined basis have not been presented as it is impracticable due to the lack of availability of historical financial statements that comply with GAAP.

(6) Goodwill and Intangible Assets

Goodwill balance consists of the following (in millions):

	Carrying Amount
Balance as of December 31, 2021	$ 777
Goodwill acquired	45
Foreign currency translation adjustments	(28)
Balance as of September 30, 2022	$ 794

Intangible assets consist of the following (in millions):

	September 30, 2022	December 31, 2021
Developed technology	$ 414	$ 415
Patents	69	69
Other	15	14
Intangible assets, gross	498	498
Less: accumulated amortization	(264)	(211)
Intangible assets, net	$ 234	$ 287

The weighted-average useful life of the acquired developed technology for the nine months ended September 30, 2022 and 2021 was approximately five years. Amortization expense for intangible assets for each of the three months ended September 30, 2022 and 2021 was $20 million , and for the nine months ended September 30, 2022 and 2021 was $60 million and $53 million, respectively.

The following table presents the estimated future amortization expense related to intangible assets held at September 30, 2022 (in millions):

Years Ending December 31,	
Remainder of 2022	$ 20
2023	74
2024	68
2025	47
2026	17
Thereafter	8
Total future amortization expense	$ 234

(7) Property and Equipment

Property and equipment, net consists of the following (in millions):

	September 30, 2022	December 31, 2021
Computer equipment	$ 1,456	$ 1,226
Computer software	77	77
Leasehold and other improvements	218	200
Furniture and fixtures	79	74
Construction in progress	20	14
Property and equipment, gross	1,850	1,591
Less: Accumulated depreciation	(936)	(825)
Property and equipment, net	$ 914	$ 766

Construction in progress consists primarily of leasehold and other improvements and in-process software development costs. Depreciation expense for the three months ended September 30, 2022 and 2021 was $66 million and $83 million, respectively, and for the nine months ended September 30, 2022 and 2021 was $185 million and $232 million, respectively.

(8) Derivative Contracts

As of September 30, 2022 and December 31, 2021, we had foreign currency forward contracts with total notional values of $487 million and $833 million, respectively, which are not designated as hedging instruments. Our foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates. Outstanding foreign currency forward contracts are recorded at gross fair value as prepaid expenses and other current assets as well as accrued expenses and other current liabilities on the condensed consolidated balance sheets. The gross fair value of these foreign currency forward contracts was immaterial as of September 30, 2022 and December 31, 2021.

(9) Deferred Revenue and Performance Obligations

Revenues recognized during the three months ended September 30, 2022 and 2021 from amounts included in deferred revenue as of June 30, 2022 and 2021 were $1.6 billion and $1.3 billion, respectively.

Revenues recognized during the nine months ended September 30, 2022 and 2021 from amounts included in deferred revenue as of December 31, 2021 and 2020 were $3.3 billion and $2.6 billion, respectively.

Remaining Performance Obligations

Transaction price allocated to remaining performance obligations (“RPO”) represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenues in future periods. RPO excludes contracts that are billed in arrears, such as certain time and materials contracts, as we apply the “right to invoice” practical expedient under relevant accounting guidance.

As of September 30, 2022, the total non-cancelable RPO under our contracts with customers was $11.4 billion and we expect to recognize revenues on approximately 52% of these RPO over the following 12 months. The majority of the non-current RPO will be recognized over the next 13 to 36 months.

(10) Debt

The following table summarizes the carrying value of our outstanding debt (in millions, except percentages):

	September 30, 2022		December 31, 2021	
	2030 Notes	2022 Notes	2030 Notes	2022 Notes
Current, net of unamortized debt discount and issuance costs of $0 million and $2 million, respectively	$ —	$ —	$ —	$ 92
Long-term, net of unamortized debt discount and issuance costs of $15 million and $16 million, respectively	1,485	—	1,484	—
Total debt	$ 1,485	$ —	$ 1,484	$ 92

We consider the fair value of the 2030 Notes at September 30, 2022, and the 2022 Notes and 2030 Notes at December 31, 2021 to be a Level 2 measurement. The estimated fair value of the 2030 Notes at September 30, 2022, and the 2022 Notes and 2030 Notes at December 31, 2021 is based on the closing trading price per $100 of the 2030 Notes and 2022 Notes as follows (in millions):

	September 30, 2022	December 31, 2021
2022 Notes	$ —	$ 440
2030 Notes	$ 1,115	$ 1,400

2030 Notes

In August 2020, we issued 1.40% fixed rate ten-year notes with an aggregate principal amount of $1.5 billion due on September 1, 2030 (the "2030 Notes"). The 2030 Notes were issued at 99.63% of principal and we incurred approximately $13 million for debt issuance costs. The effective interest rate for the 2030 Notes was 1.53% and included interest payable, amortization of debt issuance cost and amortization of debt discount, as applicable. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021, and the entire outstanding principal amount is due at maturity on September 1, 2030. The 2030 Notes are unsecured obligations and the indentures governing the 2030 Notes contain customary events of default and covenants that, among others and subject to exceptions, restrict the Company's ability to incur or guarantee debt secured by liens on specified assets or enter into sale and lease-back transactions with respect to specified properties.

2022 Notes

In May and June 2017, we issued an aggregate of $782.5 million of 0% convertible senior notes (the "2022 Notes"), which were due June 1, 2022 unless earlier converted or repurchased in accordance with their terms. The 2022 Notes did not bear interest, and we could not redeem the 2022 Notes prior to maturity. The 2022 Notes were unsecured obligations and did not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries.

As described in Note 2, we adopted the new accounting standard for debt with conversion options effective January 1, 2022 using a modified retrospective method, under which financial results reported in prior periods were not adjusted. Prior to the adoption of the new standard, in accounting for the issuance of the 2022 Notes and the related transaction costs, we valued and bifurcated the conversion option from the host debt instrument, referred to as debt discount, and recorded the conversion option of $160 million in equity at issuance. The resulting debt discount and transactions costs allocated to the liability component were amortized to interest expense using the effective interest method over the term of the 2022 Notes. Upon adoption of the new accounting standard on January 1, 2022, we recombined the liability and equity components of the 2022 Notes, including the related issuance costs, assuming the instrument was accounted for as a single liability from inception to the date of adoption. Issuance costs were presented as a deduction from the outstanding principal balance of the 2022 Notes and amortized to interest expense using the effective interest method over the term of the 2022 Notes.

	Convertible Date	Initial Conversion Price per Share	Initial Conversion Rate per $1,000 Par Value	Initial Number of Shares (in millions)
2022 Notes	February 1, 2022	$ 134.75	7.42 shares	6

Conversion of the 2022 Notes on or after the Convertible Date. On or after February 1, 2022 (the “Convertible Date”), a holder was able to convert all or any portion of its 2022 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding maturity, and such conversions were settled on the maturity date.

Prior to the Convertible Date, holders of the 2022 Notes could convert their 2022 Notes at their option if during any calendar quarter if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day (in each case, the “Conversion Condition”).

The Conversion Condition for the 2022 Notes was met for all the quarters ended June 30, 2018 through December 31, 2021, except for the quarter ended December 31, 2018. Therefore, our 2022 Notes were convertible at the holders’ option beginning on July 1, 2018 through January 31, 2022, except for the quarter ended March 31, 2019 because the Conversion Condition for the 2022 Notes was not met for the quarter ended December 31, 2018.

During the nine months ended September 30, 2022, we paid cash to settle $94 million in principal of the 2022 Notes, which was comprised of early conversions of $6 million and the remaining principal of $88 million for the final settlement on June 1, 2022, the maturity date of our 2022 Notes. As a result of the settlements, we also recorded a net reduction to additional paid-in capital of $212 million offset by $212 million benefit from the 2022 Note Hedge (as defined below).

Repurchase of 2022 Notes

On August 11, 2020, we repurchased $497 million in aggregate principal amount of the 2022 Notes (the “2022 Notes Repurchase”) funded in part by the $1.1 billion proceeds received from the partial unwind of the 2022 Note Hedge (as defined below). The 2022 Notes Repurchase was accounted for as a debt extinguishment in which $493 million and $1.1 billion were allocated to the liability and equity components of the 2022 Notes, respectively. The cash consideration allocated to the liability component was based on the estimated fair value of the liability component utilizing a discount rate assuming a similar liability per the Company’s credit rating with the same maturity, but without the conversion option, as of the repurchase date. The cash consideration allocated to the equity component was based on the aggregate cash consideration less the estimated fair value of the liability component. The loss on extinguishment of $39 million recorded as other income (expense), net, represents the difference between the allocated cash consideration and the carrying value of the liability component, which includes the proportionate amounts of unamortized debt discount and unamortized debt issuance costs in the amount of $43 million.

Note Hedge

To minimize the impact of potential economic dilution upon conversion of the 2022 Notes, we entered into convertible note hedge transactions (the “2022 Note Hedge”) with certain investment banks, with respect to our common stock concurrently with the issuance of the 2022 Notes.

	Purchase	Initial Shares	Shares as of September 30, 2022
		(in millions)	
2022 Note Hedge	$ 128	6	—

The 2022 Note Hedge covered shares of our common stock at a strike price per share that corresponded to the initial conversion price of the 2022 Notes, subject to adjustment, and were exercisable upon conversion of the 2022 Notes. The 2022 Note Hedge expired upon the maturity of the 2022 Notes and since June 30, 2022, the 2022 Note Hedge is no longer outstanding. The 2022 Note Hedge was intended to reduce the potential economic dilution upon conversion of the 2022 Notes in the event that the fair value per share of our common stock at the time of exercise is greater than the conversion price of the 2022 Notes. The 2022 Note Hedge was a separate transaction and was not part of the terms of the 2022 Notes. Holders of the 2022 Notes did not have any rights with respect to the 2022 Note Hedge. The 2022 Note Hedge did not impact earnings per share, as it was entered into to offset any dilution from the 2022 Notes.

On August 11, 2020, in connection with the 2022 Notes Repurchase, we entered into partial unwind agreements (the “Note Hedge Unwind”) to reduce the number of options corresponding to the principal amount of the 2022 Notes Repurchase. We received $1.1 billion for the Note Hedge Unwind and the aggregate number of shares underlying the call options under the 2022 Note Hedge was reduced by 3.7 million shares. Consistent with early conversions of the 2022 Notes, proceeds received by the Company from the Note Hedge Unwind were used to settle a portion of the 2022 Notes Repurchase.

Warrants

	Proceeds	Initial Shares	Strike Price	First Expiration Date	Shares as of September 30, 2022
	(in millions)	(in millions)			(in millions)
2022 Warrants	$ 54	6	$ 203.40	September 1, 2022	—

Separately, we entered into warrant transactions with certain investment banks, whereby we sold warrants to acquire, subject to adjustment, the number of shares of our common stock shown in the table above (the “2022 Warrants”). If the average market value per share of our common stock for the reporting period, as measured under the 2022 Warrants, exceeded the strike price of the respective 2022 Warrants, such 2022 Warrants would have a dilutive effect on our earnings per share to the extent we report net income. The 2022 Warrants were separate transactions and were not remeasured through earnings each reporting period. The 2022 Warrants were not part of the 2022 Notes or 2022 Note Hedge.

In connection with the 2022 Notes Repurchase and early note conversions, we entered into partial unwind agreements to reduce the number of warrants outstanding under the 2022 Warrants by delivering an aggregate of 0.5 million shares of our common stock during the nine months ended September 30, 2021.

During the quarter ended June 30, 2022, we entered into unwind agreements to settle the remaining portion of the 2022 Warrants by delivering an aggregate of 0.6 million shares of our common stock. Accordingly, the 2022 Warrants were no longer outstanding as of June 30, 2022.

(11) Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss), net of tax, consist of the following (in millions):

	September 30, 2022	December 31, 2021
Foreign currency translation adjustment	$ (79)	$ 46
Net unrealized gain (loss) on investments, net of tax	(93)	(12)
Accumulated other comprehensive income (loss)	$ (172)	$ 34

Reclassification adjustments out of accumulated other comprehensive income (loss) into net income were not material for all periods presented.

(12) Stockholders' Equity

Common Stock

We are authorized to issue a total of 600 million shares of common stock as of September 30, 2022. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of September 30, 2022, we had 202.4 million shares of common stock outstanding and had reserved shares of common stock for future issuance as follows (in thousands):

	September 30, 2022
Stock plans:	
Options outstanding	1,251
RSUs(1)	6,196
Shares of common stock available for future grants:	
2021 Equity Incentive Plan(2)	5,409
Amended and Restated 2012 Employee Stock Purchase Plan(2)	8,996
Total shares of common stock reserved for future issuance	21,852

(1) Represents the number of shares issuable upon settlement of outstanding restricted stock units (“RSUs”) and performance-based RSUs (“PRSUs”), as discussed under Note 13.
(2) Refer to Note 13 for a description of these plans.

During the nine months ended September 30, 2022 and 2021, we issued a total of 2.2 million shares and 2.6 million shares, respectively, from stock option exercises, vesting of RSUs, net of employee payroll taxes and purchases from the employee stock purchase plan ("ESPP"). In addition, as described in Note 10, during the nine months ended September 30, 2022 and 2021, we issued 0.6 million and 0.5 million shares of our common stock upon the settlement of the remaining portion and partial unwind of the 2022 Warrants, respectively.

(13) Equity Awards

We currently have three equity incentive plans, our 2005 Stock Option Plan (the "2005 Plan"), 2012 Equity Incentive Plan (the "2012 Plan") and 2021 Equity Incentive Plan (the "2021 Plan"). The 2005 Plan was terminated in connection with our initial public offering in 2012 but continues to govern the terms of outstanding stock options that were granted prior to the termination of the 2005 Plan. We no longer grant equity awards pursuant to the 2005 Plan. The 2012 Plan was terminated in connection with the approval of the 2021 Plan on June 7, 2021 but continues to govern the terms of outstanding equity awards that were granted prior to the termination of the 2012 Plan. As of June 7, 2021, we no longer grant equity awards pursuant to the 2012 Plan.

The 2021 Plan and the 2012 Plan provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, RSUs, performance-based stock awards and other forms of equity compensation (collectively, "equity awards"). In addition, the 2021 Plan and the 2012 Plan provide for the grant of performance cash awards. Incentive stock options may be granted only to employees. All other equity awards may be granted to employees, including officers, as well as directors and consultants. Prior to June 7, 2021, the 2012 Plan share reserve was increased to the extent outstanding stock options under the 2005 Plan expire or terminate unexercised.

Our Amended and Restated 2012 Employee Stock Purchase Plan (the "2012 ESPP") authorizes the issuance of shares of common stock pursuant to purchase rights granted to our employees. The price at which common stock is purchased under the 2012 ESPP is equal to 85% of the fair market value of our common stock on the first or last day of the offering period, whichever is lower. Offering periods are six-months long and begin on February 1 and August 1 of each year. Prior to June 7, 2021, the number of shares of common stock reserved for issuance automatically increased on January 1 of each year, by up to 1% of the total number of shares of common stock outstanding on December 31 of the preceding year as determined by our board of directors. Our board of directors elected not to increase the number of shares of common stock reserved for issuance under the 2012 ESPP pursuant to the provision described in the preceding sentence for the year ending December 31, 2021 and for the remaining term of the 2012 ESPP, the share reserve will not be increased without shareholder approval.

Stock Options

Stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by our board of directors or, for those stock options issued subsequent to our initial public offering, the closing price of our common stock as reported on the New York Stock Exchange on the date of grant. Stock options granted under the 2005 Plan and the 2012 Plan to new employees generally vest 25% one year from the date the requisite service period begins and continue to vest monthly for each month of continued employment over the remaining three years. One-time long-term performance-based options granted to the Chief Executive Officer ("2021 CEO Performance Award") and to certain executives (collectively "2021 Performance Awards") in the fourth quarter of 2021 under the 2021 Plan vest in eight equal tranches based on service conditions and achievement of both performance and market conditions. Options granted generally are exercisable for a period of up to ten years contingent on each holder's continuous status as a service provider.

A summary of stock option activity for the nine months ended September 30, 2022 was as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in millions)
Outstanding at December 31, 2021	1,305	$ 551.39		
Granted	23	$ 591.66		
Exercised	(41)	$ 24.76		$ 22
Canceled	(2)	$ 84.80		
Outstanding at March 31, 2022	1,285	$ 569.70		
Exercised	(24)	$ 24.92		$ 11
Canceled	(1)	$ 84.53		
Outstanding at June 30, 2022	1,260	$ 580.61		
Exercised	(9)	$ 61.47		$ 4
Outstanding at September 30, 2022	1,251	$ 584.44	8.5	$ 45
Vested and expected to vest as of September 30, 2022	1,066	$ 571.98	8.5	$ 44
Vested and exercisable as of September 30, 2022	142	$ 153.21	5.2	$ 32

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options. The total fair value of stock options vested during the nine months ended September 30, 2022 was $9 million.

As of September 30, 2022, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately $101 million. The weighted-average remaining vesting period of unvested stock options at September 30, 2022 was approximately three years.

RSUs

A summary of RSU activity for the nine months ended September 30, 2022 was as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value
	(in thousands)		(in millions)
Outstanding at December 31, 2021	5,808	$ 416.00	
Granted	2,612	$ 589.15	
Vested	(859)	$ 339.22	$ 494
Forfeited	(211)	$ 438.39	
Outstanding at March 31, 2022	7,350	$ 486.01	
Granted	390	$ 460.49	
Vested	(736)	$ 389.11	$ 324
Forfeited	(210)	$ 472.89	
Outstanding at June 30, 2022	6,794	$ 495.48	
Granted	359	$ 456.65	
Vested	(781)	$ 416.02	$ 389
Forfeited	(176)	$ 486.01	
Outstanding at September 30, 2022	6,196	$ 503.34	

RSUs outstanding as of September 30, 2022 were comprised of 5.8 million RSUs with only service conditions and 0.4 million RSUs with both service and performance conditions, including certain RSUs with additional market conditions.

PRSUs with service, performance and market vesting criteria are considered as eligible to vest when approved by the compensation committee of our board of directors in January of the year following the grant. The ultimate number of shares eligible to vest for PRSUs range from 0% to 200% of the target number of shares depending on achievement relative to the performance metrics and, for certain PRSUs, depend on our total shareholder return relative to that of the S&P 500 index over the applicable measurement period. The eligible shares subject to PRSUs granted during the nine months ended September 30, 2022 will vest in February of the following year and semi-annually for the remaining two years contingent on each holder's continuous status as a service provider on the applicable vesting date. The number of PRSUs granted included in the table above reflects the shares that could be eligible to vest at 100% of target for PRSUs and includes adjustments for over or under achievement for PRSUs granted in the prior year. We recognized $91 million and $88 million of stock-based compensation, net of actual and estimated forfeitures, associated with PRSUs on a graded vesting basis during the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately $2.4 billion and the weighted-average remaining vesting period was approximately three years.

(14) Net Income Per Share

Basic net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, adjusted for the effects of dilutive shares of common stock, which are comprised of outstanding stock options, RSUs, ESPP obligations, the 2022 Notes and the 2022 Warrants. Stock awards with performance or market conditions are included in dilutive shares to the extent all conditions are met. The dilutive potential shares of common stock are computed using the treasury stock method or the as-if converted method, as applicable. The effects of outstanding stock options, RSUs, ESPP obligations, 2022 Notes and 2022 Warrants are excluded from the computation of diluted net income per share in periods in which the effect would be antidilutive.

The following tables present the calculation of basic and diluted net income per share attributable to common stockholders (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net income	$ 79,749	$ 62,890	$ 174,871	$ 203,725
Denominator:				
Weighted-average shares outstanding - basic	202,045	198,600	201,026	197,680
Weighted-average effect of potentially dilutive securities:				
Common stock options	120	295	146	314
RSUs	956	2,981	1,598	3,359
2022 Notes	—	556	—	539
2022 Notes settlements	—	25	375	138
2022 Warrants	—	667	—	631
Settlement of 2022 Warrants	—	—	205	68
Weighted-average shares outstanding - diluted	203,121	203,124	203,350	202,729
Net income per share - basic	$ 0.39	$ 0.32	$ 0.87	$ 1.03
Net income per share - diluted	$ 0.39	$ 0.31	$ 0.86	$ 1.00

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Common stock options	1,023	36	1,022	36
RSUs	3,923	102	3,505	1,430
ESPP obligations	309	209	309	209
Total potentially dilutive securities	5,255	347	4,836	1,675

(15) Income Taxes

We compute our provision for income taxes by applying the estimated annual effective tax rate to year-to-date income from recurring operations and adjust the provision for discrete tax items recorded in the period.

Our income tax provision was $22 million and $41 million for the three and nine months ended September 30, 2022, respectively. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates and the valuation allowance in the United States.

Our income tax provision was $5 million and $13 million for the three and nine months ended September 30, 2021, respectively. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates, the valuation allowance in the United States, a tax rate change in a foreign jurisdiction and a valuation allowance release resulting from an acquisition.

We are subject to taxation in the United States and foreign jurisdictions. As of September 30, 2022, our tax years 2004 to 2021 remain subject to examination in most jurisdictions.

Due to differing interpretations of tax laws and regulations, tax authorities may dispute our tax filing positions. We periodically evaluate our exposures associated with our tax filing positions and believe that adequate amounts have been reserved for adjustments that may result from tax examinations.

(16) Commitments and Contingencies

Operating Leases

For some of our offices and data centers, we have entered into non-cancelable operating lease agreements with various expiration dates through 2035. Certain lease agreements include options to renew or terminate the lease, which are not reasonably certain to be exercised and therefore are not factored into our determination of lease payments.

Total operating lease costs were $28 million and $84 million excluding short-term lease costs, variable lease costs and sublease income, each of which were immaterial, for the three and nine months ended September 30, 2022, respectively.

Total operating lease costs were $27 million and $73 million excluding short-term lease costs, variable lease costs and sublease income, each of which were immaterial, for the three and nine months ended September 30, 2021, respectively.

For each of the nine months ended September 30, 2022 and 2021, cash paid for amounts included in the measurement of operating lease liabilities was $56 million. Operating lease liabilities arising from obtaining operating right-of-use assets totaled $73 million and $216 million for the nine months ended September 30, 2022 and 2021, respectively.

As of September 30, 2022, the weighted-average remaining lease term is approximately nine years, and the weighted-average discount rate is 3%.

Maturities of operating lease liabilities as of September 30, 2022 are presented in the table below (in millions):

Remainder of 2022	$ 29
2023	103
2024	92
2025	84
2026	65
Thereafter	373
Total operating lease payments	746
Less: imputed interest	(106)
Present value of operating lease liabilities	$ 640

In addition to the amounts above, as of September 30, 2022, we have operating leases, primarily for offices, that have not yet commenced with undiscounted cash flows of $263 million. These operating leases will commence between 2022 and 2023 with lease terms of 1 year to 13 years.

Other Commitments

Other contractual commitments consist of data center and IT operations and sales and marketing activities. There were no material contractual obligations that were entered into during the nine months ended September 30, 2022 that were outside the ordinary course of business. For the three months ended September 30, 2022, we entered into a non-cancelable, $500 million agreement with Microsoft to purchase cloud services over five years, as we accelerate Azure adoption for mutual customers.

In addition to the amounts above, the repayment of our 2030 Notes with an aggregate principal amount of $1.5 billion is due on September 1, 2030. Refer to Note 10 for further information regarding our Notes.

Further, $29 million of unrecognized tax benefits have been recorded as liabilities as of September 30, 2022.

Legal Proceedings

From time to time, we are party to litigation and other legal proceedings in the ordinary course of business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position, results of operations or cash flows, except for those matters for which we have recorded a loss contingency. We accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss.

Generally, our subscription agreements require us to defend our customers for third-party intellectual property infringement and other claims. Any adverse determination related to intellectual property claims or other litigation could prevent us from offering our services and adversely affect our financial condition and results of operations.

Indemnification Provisions

Our agreements include provisions indemnifying customers against intellectual property and other third-party claims. In addition, we have entered into indemnification agreements with our directors, executive officers and certain other officers that will require us, among other things, to indemnify them against certain liabilities that may arise as a result of their affiliation with us. We have not incurred any costs as a result of such indemnification obligations and have not recorded any liabilities related to such obligations in the condensed consolidated financial statements.

(17) Information about Geographic Areas and Products

Revenues by geographic area, based on the location of our users, were as follows for the periods presented (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
North America[1]	$ 1,209	$ 960	$ 3,464	$ 2,731
EMEA[2]	432	401	1,299	1,122
Asia Pacific and other	190	151	542	429
Total revenues	$ 1,831	$ 1,512	$ 5,305	$ 4,282

Property and equipment, net by geographic area were as follows (in millions):

	September 30, 2022	December 31, 2021
North America[3]	$ 565	$ 484
EMEA[2]	200	176
Asia Pacific and other	$ 149	$ 106
Total property and equipment, net	$ 914	$ 766

(1) Revenues attributed to the United States were 94% of North America revenues for each of the three and nine months ended September 30, 2022 and 2021.
(2) Europe, the Middle East and Africa ("EMEA")
(3) Property and equipment, net attributed to the United States were approximately 84% of property and equipment, net attributable to North America as of September 30, 2022 and December 31, 2021.

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Subscription revenues consist of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Digital workflow products	$ 1,534	$ 1,253	$ 4,437	$ 3,548
ITOM products	208	174	594	502
Total subscription revenues	$ 1,742	$ 1,427	$ 5,031	$ 4,050

Our digital workflow products include the Now Platform, IT Service Management, Strategic Portfolio Management (formerly known as IT Business Management), IT Asset Management, Security Operations, Governance, Risk and Compliance, HR Service Delivery, Safe Workplace Suite of applications, Workplace Service Delivery, Legal Service Delivery, Customer Service Management, Field Service Management, Industry Solutions, App Engine and IntegrationHub, and are generally priced on a per user basis. Our IT Operations Management ("ITOM") products are generally priced on a subscription unit basis which allows us to measure customers' management of various IT resources, and decreasingly on a per node (physical or virtual server) basis.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2021 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC"), on February 3, 2022. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those identified herein, and those discussed in the section titled "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 3, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Investors and others should note that we announce material financial information to our investors using our investor relations website (https://www.servicenow.com/company/investor-relations.html), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our company, our services and other issues. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the social media channels listed on our investor relations website.

Our free cash flow measure included in the section entitled "—Key Business Metrics—Free Cash Flow," is not in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). This non-GAAP financial measure is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. This measure may be different from non-GAAP financial measures used by other companies, limiting its usefulness for comparison purposes. We encourage investors to carefully consider our results under GAAP, as well as our supplemental non-GAAP results, to more fully understand our business.

Overview

ServiceNow was founded on a simple premise: a better technology platform will help work flow better. Our purpose is to make the world work better for everyone. We help global enterprises across industries, universities and governments to digitize their workflows. The Now Platform enables us to connect systems, silos, departments and processes with digital workflows that are simple and easy to use. We categorize the workflows we provide into four primary areas: Technology (formerly known as Information Technology), Employee, Customer and Creator. The Now Platform is uniquely positioned to enable our customers' digital transformation from non-integrated enterprise technology solutions with manual and disconnected processes and activities, to integrated enterprise technology solutions with automation and connected processes and activities. The transformation to digital operations, enabled by the Now Platform, increases our customers' resiliency and security and delivers great experiences and additional value to their employees and consumers.

In response to the COVID-19 pandemic, we continue to focus on maintaining business continuity, helping our employees, customers and communities, and preparing for the future and the long-term success of our business. We are continuing to monitor the actual and potential effects of the COVID-19 pandemic across our business. The extent and continued impact of the COVID-19 pandemic on our business will depend on certain developments including the duration and spread of the outbreak and new variant strains of the virus; the availability and distribution of effective vaccines; the severity of the economic decline attributable to the pandemic and timing, nature and sustainability of economic recovery; and government responses, including vaccination or testing mandates, all of which are highly uncertain and unpredictable. Starting late 2021, many employees began to return to our offices for at least part of the week. Our return to work approach may vary among geographies depending on appropriate health protocols, and may change at any time depending on the severity of or spikes in COVID-19. The impact, if any, of these and any additional operational changes we may implement is uncertain but changes we have implemented have not affected and are not expected to affect our ability to maintain operations, including financial reporting systems, internal control over financial reporting and disclosure controls and procedures.

We are closely monitoring the unfolding events of the Russian invasion of Ukraine and its global impacts. While the conflict is still evolving and the outcome remains highly uncertain, we do not believe the Russia-Ukraine conflict will have a material impact on our business and results of operation. However, if the Russia-Ukraine conflict continues or worsens, leading to greater global economic disruptions and uncertainty, our business and results of operations could be materially impacted. Our customers in Russia represented an immaterial portion of our net assets and total consolidated revenues both as of and for the three months ended September 30, 2022 and December 31, 2021.

See the “Risk Factors” section in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 3, 2022 and in Part II, Item 1A of this Quarterly Report on Form 10-Q for further discussion of the possible impact of the COVID-19 pandemic and Russia-Ukraine conflict on our business.

Key Business Metrics

Remaining performance obligations. Transaction price allocated to remaining performance obligations (“RPO”) represents contracted revenues that has not yet been recognized, which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenue in future periods. RPO excludes contracts that are billed in arrears, such as certain time and materials contracts, as we apply the “right to invoice” practical expedient under relevant accounting guidance. Current remaining performance obligations (“cRPO”) represents RPO that will be recognized as revenue in the next 12 months.

As of September 30, 2022, our RPO was $11.4 billion, of which 52% represented cRPO. RPO and cRPO increased by 17% and 18%, respectively, compared to September 30, 2021. Factors that may cause our RPO to vary from period to period include the following:

- *Foreign currency exchange rates*. While a majority of our contracts have historically been in U.S. Dollars, an increasing percentage of our contracts in recent periods has been in foreign currencies, particularly the Euro and British Pound Sterling. Fluctuations in foreign currency exchange rates as of the balance sheet date will cause variability in our RPO.

- *Mix of offerings*. In a minority of cases, we allow our customers to host our software by themselves or through a third-party service provider. In self-hosted offerings, we recognize a portion of the revenue upfront upon the delivery of the software and as a result, such revenue is excluded from RPO.

- *Subscription start date*. From time to time, we enter into contracts with a subscription start date in the future and these amounts are included in RPO if such contracts are signed by the balance sheet date.

- *Timing of contract renewals*. While customers typically renew their contracts at the end of the contract term, from time to time, customers may do so either before or after the scheduled expiration date. For example, in cases where we are successful in selling additional products or services to an existing customer, a customer may decide to renew its existing contract early to ensure that all its contracts expire on the same date. In other cases, prolonged negotiations or other factors may result in a contract not being renewed until after it has expired.

- *Contract duration*. While we typically enter into multi-year subscription services, the duration of our contracts varies. Further, we continue to see an increase in the number of 12-month agreements entered into with the U.S. Federal government throughout the year, with the highest number of agreements entered into in the quarter ended September 30 of each year, driven primarily by timing of their annual budget expenditures. We sometimes also enter into contracts with durations that have a 12-month or shorter term to enable such contracts to co-terminate with existing contracts. The contract duration will cause variability in our RPO.

Number of customers with ACV greater than $1 million. We count the total number of customers with annual contract value ("ACV") greater than $1 million as of the end of the period. We had 1,530 and 1,252 customers with ACV greater than $1 million as of September 30, 2022 and 2021, respectively. For purposes of customer count, a customer is defined as an entity that has a unique Dunn & Bradstreet Global Ultimate ("GULT") Data Universal Numbering System ("DUNS") number and an active subscription contract as of the measurement date. The DUNS number is a global standard for business identification and tracking. We make exceptions for holding companies, government entities and other organizations for which the GULT, in our judgment, does not accurately represent the ServiceNow customer. For example, while all U.S. government agencies roll up to "Government of the United States" under the GULT, we count each government agency that we contract with as a separate customer. Our customer count is subject to adjustments for acquisitions, spin-offs and other market activity; accordingly, we restate previously disclosed number of customers with ACV greater than $1 million calculations to allow for comparability. ACV is calculated based on the foreign exchange rate in effect at the time the contract was signed. Foreign exchange rate fluctuations could cause some variability in the number of customers with ACV greater than $1 million. We believe information regarding the total number of customers with ACV greater than $1 million provides useful information to investors because it is an indicator of our growing customer base and demonstrates the value customers are receiving from the Now Platform.

Free cash flow. We define free cash flow, a non-GAAP financial measure, as GAAP net cash provided by operating activities reduced by purchases of property and equipment. Purchases of property and equipment are otherwise included in cash used in investing activities under GAAP. We believe information regarding free cash flow provides useful information to investors because it is an indicator of the strength and performance of our business operations. However, our calculation of free cash flow may not be comparable to similar measures used by other companies. A calculation of free cash flow is provided below:

	Nine Months Ended September 30,		
	2022	**2021**	**% Change**
	(dollars in millions)		
Free cash flow:			
Net cash provided by operating activities	$ 1,561	$ 1,347	16 %
Purchases of property and equipment	(406)	(292)	39 %
Free cash flow[(1)]	$ 1,155	$ 1,055	9 %

(1) Free cash flow for the nine months ended September 30, 2021 includes the effect of $15 million relating to the repayments of convertible senior notes attributable to debt discount. Refer to Note 10 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details.

We have historically seen higher collections in the quarter ended March 31 due to seasonality in timing of entering into customer contracts, which is significantly higher in the quarter ended December 31. Additionally, we have historically seen higher disbursements in the quarters ended March 31 and September 30 due to payouts under our annual commission plans, purchases under our employee stock purchase plan, payouts under our bonus plans and coupon payments related to our 2030 Notes beginning in 2021.

Renewal rate. We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the ACV from customers lost during the period, divided by the sum of (i) the total ACV from all customers that renewed during the period, excluding changes in price or users, and (ii) the total ACV from all customers lost during the period. Accordingly, our renewal rate is calculated based on ACV and is not based on the number of customers that have renewed. Further, our renewal rate does not reflect increased or decreased purchases from our customers to the extent such customers are not lost customers or lapsed renewals. A lost customer is a customer that did not renew an expiring contract and that, in our judgment, will not be renewed. Typically, a customer that reduces its subscription upon renewal is not considered a lost customer. However, in instances where the subscription decrease represents the majority of the customer's ACV, we may deem the renewal as a lost customer. For our renewal rate calculation, we define a customer as an entity with a separate production instance of our service and an active subscription contract as of the measurement date, instead of an entity with a unique GULT or DUNS number. We adjust our renewal rate for acquisitions, consolidations and other customer events that cause the merging of two or more accounts occurring at the time of renewal. Our renewal rate was 98% for each of the three and nine months ended September 30, 2022 and 2021. As our renewal rate is impacted by the timing of renewals, which could occur in advance of, or subsequent to the original contract end date, period-to-period comparison of renewal rates may not be meaningful.

Components of Results of Operations

Revenues

Subscription revenues. Subscription revenues are primarily comprised of fees that give customers access to the ordered subscription service for both self-hosted offerings and cloud-based subscription offerings, and related standard and enhanced support and updates, if any, to the subscription service during the subscription term. For our cloud-based offerings, we recognize revenue ratably over the subscription term. For self-hosted offerings, a substantial portion of the sales price is recognized upon delivery of the software, which may cause greater variability in our subscription revenues and subscription gross margin. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future updates, when and if available, offered during the subscription term. We typically invoice our customers for subscription fees in annual increments upon execution of the initial contract or subsequent renewal. Our contracts are generally non-cancelable during the subscription term, though a customer can terminate for breach if we materially fail to perform.

Professional services and other revenues. Our arrangements for professional services are primarily on a time-and-materials basis and we generally invoice our customers monthly in arrears for the professional services based on actual hours and expenses incurred. Some of our professional services arrangements are on a fixed fee or subscription basis. Professional services revenues are recognized as services are delivered. Other revenues primarily consist of fees from customer training delivered on-site or through publicly available classes. Typical payment terms require our customers to pay us within 30 days of invoice.

We sell our subscription services primarily through our direct sales organization. We also sell services through managed service providers and resale partners. We also generate revenues from certain professional services and from training of customers and partner personnel, through both our direct team and indirect channel sales. Revenues from our direct sales organization represented 79% of our total revenues for each of the three and nine months ended September 30, 2022, and 2021. For purposes of calculating revenues from our direct sales organization, revenues from systems integrators and managed services providers are included as part of the direct sales organization.

Seasonality. We have historically experienced seasonality in terms of when we enter into customer agreements. We sign a significantly higher percentage of agreements with new customers, as well as expansion with existing customers, in the fourth quarter of each year. The increase in customer agreements for the fourth quarter is primarily a result of both large enterprise account buying patterns typical in the software industry, which are driven primarily by the expiration of annual authorized budgeted expenditures, and the terms of our commission plans, which incentivize our direct sales organization to meet their annual quotas by December 31. Furthermore, we usually sign a significant portion of these agreements during the last month, and often the last two weeks, of each quarter. This seasonality of entering into customer contracts is sometimes not immediately apparent in our revenues, due to the fact that we recognize subscription revenues from our cloud offering contracts over the term of the subscription agreement, which is generally 12 to 36 months, leading to a higher RPO in the fourth quarter and thereafter. Although these seasonal factors are common in the technology industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance.

Cost of Revenues

Cost of subscription revenues. Cost of subscription revenues consists primarily of expenses related to hosting our services and providing support to our customers. These expenses are comprised of data center capacity costs, which include colocation costs associated with our data centers as well as interconnectivity between data centers, depreciation related to our infrastructure hardware equipment dedicated for customer use, amortization of intangible assets, expenses associated with software, public cloud service costs, IT services and dedicated customer support, personnel-related costs directly associated with data center operations and customer support, including salaries, benefits, bonuses and stock-based compensation and allocated overhead.

Cost of professional services and other revenues. Cost of professional services and other revenues consists primarily of personnel-related costs directly associated with our professional services and training departments, including salaries, benefits, bonuses and stock-based compensation, the costs of contracted third-party partners, travel expenses and allocated overhead.

Professional services are performed directly by our services team, as well as by contracted third-party partners. Fees paid by us to third-party partners are primarily recognized as cost of revenues as the professional services are delivered. Cost of revenues associated with our professional services engagements contracted with third-party partners as a percentage of professional services and other revenues was 14% and 13% for the three and nine months ended September 30, 2022, respectively, and 15% and 13% for the three and nine months ended September 30, 2021, respectively.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel-related expenses directly associated with our sales and marketing staff, including salaries, benefits and bonuses and stock-based compensation. Sales and marketing expenses also include the amortization of commissions paid to our sales employees, including related payroll taxes and fringe benefits. In addition, sales and marketing expenses include branding expenses, marketing program expenses, which include events such as Knowledge, and costs associated with purchasing advertising and marketing data, software and subscription services dedicated for sales and marketing use and allocated overhead.

Research and Development

Research and development expenses consist primarily of personnel-related expenses directly associated with our research and development staff, including salaries, benefits, bonuses and stock-based compensation and allocated overhead. Research and development expenses also include data center capacity costs, costs associated with outside services contracted for research and development purposes and depreciation of infrastructure hardware equipment that is used solely for research and development purposes.

General and Administrative

General and administrative expenses consist primarily of personnel-related expenses for our executive, finance, legal, human resources, facilities and administrative personnel, including salaries, benefits, bonuses and stock-based compensation, external legal, accounting and other professional services fees, other corporate expenses, amortization of intangible assets and allocated overhead.

Provision for Income Taxes

Provision for income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our U.S. deferred tax assets as of September 30, 2022. We consider all available evidence, both positive and negative, including but not limited to earnings history, projected future outcomes, industry and market trends and the nature of each of the deferred tax assets in assessing the extent to which a valuation allowance should be applied against our U.S. and foreign deferred tax assets.

Comparison of the Three and Nine Months Ended September 30, 2022 and 2021

Revenues

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Revenues:						
Subscription	$ 1,742	$ 1,427	22 %	$ 5,031	$ 4,050	24 %
Professional services and other	89	85	5 %	274	232	18 %
Total revenues	$ 1,831	$ 1,512	21 %	$ 5,305	$ 4,282	24 %
Percentage of revenues:						
Subscription	95%	94%		95%	95%	
Professional services and other	5%	6%		5%	5%	
Total	100%	100%		100%	100%	

Subscription revenues increased by $315 million and $981 million for the three and nine months ended September 30, 2022, respectively, compared to the three and nine months ended September 30, 2021, primarily driven by increased purchases by new and existing customers. Included in subscription revenues is $53 million and $54 million of revenues recognized upfront from the delivery of software associated with self-hosted offerings during the three months ended September 30, 2022 and 2021, respectively, and $179 million and $168 million during the nine months ended September 30, 2022 and 2021, respectively.

We expect subscription revenues for the year ending December 31, 2022 to increase in absolute dollars as we continue to add new customers and existing customers increase their usage of our products, but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021.

Our expectations for revenues, cost of revenues and operating expenses for the remainder of 2022 are based on the 30-day average of foreign exchange rates for September 2022.

Subscription revenues consist of the following:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Digital workflow products	$ 1,534	$ 1,253	22 %	$ 4,437	$ 3,548	25 %
ITOM products	208	174	20 %	594	502	18 %
Total subscription revenues	$ 1,742	$ 1,427	22 %	$ 5,031	$ 4,050	24 %

Our digital workflow products include the Now Platform, IT Service Management, Strategic Portfolio Management (formerly known as IT Business Management), IT Asset Management, Security Operations, Governance, Risk and Compliance, HR Service Delivery, Safe Workplace Suite of applications, Workplace Service Delivery, Legal Service Delivery, Customer Service Management, Field Service Management, Industry Solutions, App Engine and IntegrationHub, and are generally priced on a per user basis. Our IT Operations Management ("ITOM") products are generally priced on a subscription unit basis which allows us to measure customers' management of various IT resources, and decreasingly on a per node (physical or virtual server) basis.

Professional services and other revenues increased by $4 million and $42 million during the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021, respectively, due to an increase in services and trainings provided to new and existing customers. We expect professional services and other revenues for the year ending December 31, 2022 to increase in absolute dollars but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021. We are increasingly focused on deploying our internal professional services organization as a strategic resource and relying on our partner ecosystem to contract directly with customers for implementation services delivery.

Cost of Revenues and Gross Profit Percentage

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Cost of revenues:						
Subscription	$ 301	$ 264	14 %	$ 863	$ 740	17 %
Professional services and other	99	86	15 %	295	239	23 %
Total cost of revenues	$ 400	$ 350	14 %	$ 1,158	$ 979	18 %
Gross profit (loss) percentage:						
Subscription	83%	81%		83%	82%	
Professional services and other	(11%)	(1%)		(8%)	(3%)	
Total gross profit percentage	78%	77%		78%	77%	
Gross profit	$ 1,431	$ 1,162		$ 4,147	$ 3,303	

Cost of subscription revenues increased by $37 million and $123 million for the three and nine months ended September 30, 2022, respectively compared to the three and nine months ended September 30, 2021, primarily due to increased headcount and increased costs to support the growth of our subscription offerings including costs to support customers in regulated markets. Personnel-related costs including stock-based compensation and overhead expenses increased by $38 million and $106 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year. Maintenance costs to support the expansion of our data center capacity, including public cloud service costs, increased by $9 million and $39 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year. Amortization of intangible assets remained relatively flat for the three months ended September 30, 2022 and increased by $11 million for the nine months ended September 30, 2022, compared to the same periods in the prior year. Depreciation expense related to data center hardware and software decreased by $16 million and $42 million, primarily due to the change in estimated useful life of data center equipment from three years to four years, for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year.

We expect our cost of subscription revenues for the year ending December 31, 2022 to increase in absolute dollars as we provide subscription services to more customers and increase usage within our customer instances but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021. Our subscription gross profit percentage was 83% for each of the three and nine months ended September 30, 2022, compared to 81% and 82% for the three and nine months ended September 30, 2021, respectively. We expect our subscription gross profit percentage to increase slightly for the year ending December 31, 2022 compared to the year ended December 31, 2021. We will continue to incur incremental costs to attract customers in regulated markets by adopting public cloud offerings as well as increased support for customers impacted by new and evolving data residency requirements. To the extent future acquisitions are consummated, our cost of subscription revenues may increase due to additional non-cash charges associated with the amortization of intangible assets acquired.

Cost of professional services and other revenues increased by $13 million and $56 million for the three and nine months ended September 30, 2022, respectively, compared to the three and nine months ended September 30, 2021, primarily due to increased headcount to support growth resulting in an increase in personnel-related costs including stock-based compensation, travel and overhead expenses.

Our professional services and other gross loss percentage increased to 11% and 8% for the three and nine months ended September 30, 2022, respectively, from a loss of 1% and 3% for the three and nine months ended September 30, 2021, respectively, primarily driven by planned increase in headcount costs to support the business growth and increase in travel expense for customer implementations. We expect our professional services and other gross loss percentage to worsen for the year ending December 31, 2022 as we expect additional costs to support business growth and increases in travel expenses compared to the year ended December 31, 2021.

Sales and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
	(dollars in millions)			**(dollars in millions)**		
Sales and marketing	$ 697	$ 579	20 %	$ 2,092	$ 1,660	26 %
Percentage of revenues	38%	38%		39%	39%	

Sales and marketing expenses increased by $118 million and $432 million for the three and nine months ended September 30, 2022, respectively, compared to the three and nine months ended September 30, 2021, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of $101 million and $304 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year. Amortization expenses associated with deferred commissions increased by $19 million and $54 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year, due to an increase in contracts with new customers, expansion and renewal contracts. Other sales and marketing program expenses, which includes branding, costs associated with purchasing advertising, marketing events and market data, increased by $63 million during the nine months ended September 30, 2022, compared to the same periods in the prior year, primarily due to increased program costs and travel for our annual Knowledge user conference.

We expect sales and marketing expenses for the year ending December 31, 2022 to increase in absolute dollars, but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021, as we continue to see leverage from increased sales productivity and marketing efficiencies offset by growth in our international operations and increases in travel expenses in 2022.

Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
	(dollars in millions)			**(dollars in millions)**		
Research and development	$ 456	$ 358	27 %	$ 1,314	$ 1,005	31 %
Percentage of revenues	25%	24%		25%	23%	

Research and development expenses increased by $98 million and $309 million for the three and nine months ended September 30, 2022, respectively, compared to the three and nine months ended September 30, 2021, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of $92 million and $289 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year.

We expect research and development expenses for the year ending December 31, 2022 to increase in absolute dollars but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021 as we continue to improve the existing functionality of our services, develop new applications to fill market needs and enhance our core platform.

General and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	**2021**	**% Change**	**2022**	**2021**	**% Change**
	(dollars in millions)			**(dollars in millions)**		
General and administrative	$ 187	$ 151	24 %	$ 541	$ 416	30 %
Percentage of revenues	10%	10%		10%	10%	

General and administrative expenses ("G&A") increased by $36 million and $125 million for the three and nine months ended September 30, 2022, respectively, compared to the three and nine months ended September 30, 2021, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation of $35 million and $123 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year.

We expect G&A expenses to increase in absolute dollars for the year ending December 31, 2022 but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021, as we continue to see leverage from continued G&A productivity, offset by higher stock-based compensation related to one-time long-term performance-based options granted to the Chief Executive Officer ("2021 CEO Performance Award") and to certain executives (collectively "2021 Performance Awards").

Stock-based Compensation

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Cost of revenues:						
Subscription	$ 41	$ 33	24 %	$ 116	$ 95	22 %
Professional services and other	17	15	13 %	51	43	19 %
Operating expenses:						
Sales and marketing	119	101	18 %	337	293	15 %
Research and development	127	102	25 %	368	288	28 %
General and administrative	57	40	43 %	166	110	51 %
Total stock-based compensation	$ 361	$ 291	24 %	$ 1,038	$ 829	25 %
Percentage of revenues	20%	19%		20%	19%	

Stock-based compensation increased by $70 million and $209 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year, primarily due to additional grants to current and new employees.

Stock-based compensation is inherently difficult to forecast due to fluctuations in our stock price. Based upon our stock price as of September 30, 2022, we expect stock-based compensation to continue to increase in absolute dollars for the year ending December 31, 2022 as we continue to issue stock-based awards to our employees, but remain relatively flat as a percentage of revenues compared to the year ended December 31, 2021. We expect stock-based compensation as a percentage of revenues to decline over time as we continue to grow.

Foreign Currency Exchange

Our international operations have provided and will continue to provide a significant portion of our total revenues. Revenues outside North America represented 34% and 35% of total revenues for the three and nine months ended September 30, 2022, respectively, and 37% and 36% of total revenues for the three and nine months ended September 30, 2021, respectively.

Because we primarily transact in foreign currencies for sales outside of the United States, the general strengthening of the U.S. Dollar relative to other major foreign currencies (primarily the Euro and British Pound Sterling) had an unfavorable impact on our revenues for the three and nine months ended September 30, 2022. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three and nine months ended September 30, 2022 at the exchange rates in effect for the three and nine months ended September 30, 2021 rather than the actual exchange rates in effect during the period, our reported subscription revenues would have been $92 million and $193 million higher, respectively. We expect to see an incremental strengthening of the U.S. dollar resulting in further foreign currency impact to subscription revenue for the fourth quarter of fiscal 2022. The impact from the foreign currency movements from the three and nine months ended September 30, 2021 to the three and nine months ended September 30, 2022 was not material for professional services and other revenues.

In addition, because we primarily transact in foreign currencies for cost of revenues and operating expenses outside of the United States, the general strengthening of the U.S. Dollar relative to other major foreign currencies had a favorable impact on our cost of revenues and sales and marketing expenses for each of the three and nine months ended September 30, 2022. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three and nine months ended September 30, 2022 at the exchange rates in effect for the three and nine months ended September 30, 2021 rather than the actual exchange rates in effect during the period, our reported cost of revenues would have been $13 million and $32 million higher, respectively and sales and marketing expenses would have been $25 million and $54 million higher for the three and nine months ended September 30, 2022, respectively. The impact from the foreign currency movements from the three and nine months ended September 30, 2021 to the three and nine months ended September 30, 2022 was not material to research and development and G&A expenses.

Interest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Interest expense	$ (8)	$ (7)	14 %	$ (20)	$ (21)	(5 %)
Percentage of revenues	— %	—%		— %	— %	

Interest expense remained relatively flat for each of the three and nine months ended September 30, 2022, compared to the same periods in the prior year. We expect to incur approximately $6 million of interest expense related to the 2030 Notes in the fourth quarter of fiscal 2022.

Other Income (Expense), net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
	(dollars in millions)			(dollars in millions)		
Interest income	$ 26	$ 5	NM	$ 43	$ 15	187%
Other	(7)	(4)	75%	(7)	1	NM
Other income (expense), net	$ 19	$ 1	NM	$ 36	$ 16	125%
Percentage of revenues	1%	—%		1%	—%	

NM - Not meaningful

Other income (expense), net, increased by $18 million and $20 million for the three and nine months ended September 30, 2022, respectively, compared to the same periods in the prior year, primarily driven by an increase in investment income from our managed portfolio.

To mitigate our risks associated with fluctuations in foreign currency exchange rates, we enter into foreign currency derivative contracts with maturities of 12 months or less to hedge a portion of our net outstanding monetary assets and liabilities. These hedging contracts may reduce, but cannot entirely eliminate, the impact of adverse currency exchange rate movements.

Provision for Income Taxes

	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2022	2021		2022	2021	
	(dollars in millions)			(dollars in millions)		
Income before income taxes	$ 102	$ 68	50 %	$ 216	$ 217	— %
Provision for income taxes	$ 22	$ 5	340 %	41	13	215 %
Effective tax rate	22%	7%		19%	6%	

Our income tax provision was $22 million and $41 million for the three and nine months ended September 30, 2022, respectively. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates and the valuation allowance in the United States.

Our income tax provision was $5 million and $13 million for the three and nine months ended September 30, 2021, respectively. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates, the valuation allowance in the United States, a tax rate change in a foreign jurisdiction, a valuation allowance release resulting from an acquisition and excess tax benefits of stock-based compensation.

We continue to maintain a full valuation allowance on our U.S. federal and state deferred tax assets and the significant components of the tax expense recorded are current cash taxes payable in various jurisdictions. The cash tax expenses are 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 on our U.S. federal and state deferred tax assets, sensitivity of current cash taxes to local rules and our foreign structuring, we expect that our effective tax rate could fluctuate significantly on a quarterly 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. To the extent sufficient positive evidence becomes available, we may release all or a portion of our valuation allowance in one or more future periods. A release of the valuation allowance, if any, would result in the recognition of certain deferred tax assets and a material income tax benefit for the period in which such release is recorded.

Liquidity and Capital Resources

We generate cash inflows from operations primarily from selling subscription services which are generally paid in advance of provisioning services, and cash outflows to develop new services and core technologies that further enhance the Now Platform, engage our customer and enhance their experience, and enable and transform our business operations. Subscription services arrangements typically have a three-year duration, and we have experienced a renewal rate of 98% over the last three years. Cash outflows from operations are principally comprised of the salaries, bonuses, commissions, and benefits for our workforce; licenses and services arrangements that are integral to our business operations and data centers; and operating lease arrangements that underlie our facilities. We have generated positive operating cash flows over the last ten years as we continue to grow our business in pursuit of our business strategy, and we expect to grow our business and generate positive cash flows from operations during 2022. When assessing sources of liquidity, we also include cash and cash equivalents, short-term investments and long-term investments totaling $5.5 billion as of September 30, 2022.

Our working capital requirements are principally comprised of non-contract workforce salaries, bonuses, commissions, and benefits and, to a lesser extent, cancelable and non-cancelable licenses and services arrangements that are integral to our business operations, and operating lease obligations. In addition, we made the payment for the investment in Celonis SE of $100 million during the nine months ended September 30, 2022. Operating lease obligations totaling $746 million are principally associated with leased facilities and have varying maturities with $414 million due over the next five years.

To grow our business, we also invest in capital and other resources to expand our data centers and enable our workforce, and we acquire technology and businesses to supplement our technology portfolio. Our capital expenditures are typically under cancelable arrangements primarily used to support the installed base and growth of our hosted business. We have also issued long-term debt to finance our business. In August 2020, we issued 1.40% fixed rate ten-year notes with an aggregate principal amount of $1.5 billion due on September 1, 2030 (the “2030 Notes”). In May and June 2017, we issued the 2022 Notes with an aggregate principal amount of $782.5 million. During the nine months ended September 30, 2022, we paid cash to settle $94 million in principal of the 2022 Notes, which was comprised of early conversions of $6 million and remaining principal of $88 million for final settlement on June 1, 2022, the maturity date of our 2022 Notes.

Our free cash flows, together with our other sources of liquidity, are available to service our liabilities as well as our cancelable and non-cancelable arrangements. We anticipate cash flows generated from operations, cash, cash equivalents and investments will be sufficient to meet our liquidity needs for at least the next 12 months. As we look beyond the next 12 months, we seek to continue to grow free cash flows necessary to fund our operations and grow our business. If we require additional capital resources, we may seek to finance our operations from the current funds available or additional equity or debt financing.

	Nine Months Ended September 30,	
	2022	2021
	(dollars in millions)	
Net cash provided by operating activities	$ 1,561	$ 1,347
Net cash used in investing activities	$ (1,709)	$ (1,248)
Net cash used in financing activities	$ (269)	$ (351)
Net change in cash, cash equivalents and restricted cash	$ (478)	$ (273)

Operating Activities

Net cash provided by operating activities was $1,561 million for the nine months ended September 30, 2022 compared to $1,347 million for the nine months ended September 30, 2021. The net increase in operating cash flow was primarily due to higher collections driven by revenue growth.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2022 was $1,709 million compared to $1,248 million for the nine months ended September 30, 2021. The increase in cash used in investing activities was primarily due to a $949 million increase in net purchases of investments, a $110 million increase in non-marketable investments mainly in Celonis SE, and a $114 million increase in purchases of property and equipment, offset by a $721 million decrease in business combinations.

Financing Activities

Net cash used in financing activities was $269 million for the nine months ended September 30, 2022 compared to $351 million for the nine months ended September 30, 2021. The decrease in cash used in financing activities is primarily due to a $105 million decrease in taxes paid related to net share settlement of equity awards, a $12 million increase in proceeds from employee stock plans, offset by a $35 million increase in repayments of convertible senior notes attributable to principal.

Critical Accounting Policies and Significant Judgments and Estimates

There have been no significant changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on February 3, 2022, other than the change in useful life of our data center equipment, discussed in Note 2.

New Accounting Pronouncements Pending Adoption

The impact of recently issued accounting standards is set forth in Note 2, Summary of Significant Accounting Policies, of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk compared to the disclosures in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on February 3, 2022.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Exchange Act require public companies, including our company, to maintain "disclosure controls and procedures," which are defined in Rule 13a-15(e) and Rule 15d-15(e) to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required or necessary disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of September 30, 2022, that our disclosure controls and procedures were effective at the reasonable assurance level for this purpose.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2022 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are party to litigation and other legal proceedings in the ordinary course of business. While the results of any litigation or other legal proceedings are uncertain, we are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks and uncertainties described under the section “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 3, 2022 and below and all of the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making an investment decision. The section “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on February 3, 2022 and subsequent Quarterly Reports on Form 10-Q identify the risks and uncertainties, though they are not the only ones we face, that could materially and adversely affect our business, financial condition or results of operations. Our business could be harmed by any of these risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial. Our stock price could decline due to any of these risks.

Risks Related to Our Ability to Grow Our Business

If we fail to comply with applicable anti-corruption and anti-bribery laws, export control laws, trade sanction laws, or other global trade laws, we could be subject to penalties and civil and/or criminal sanctions and our business could be materially adversely affected.

As we continue to expand our business internationally, we will inevitably do more business with large enterprises and the public sector in countries that are perceived to have heightened levels of public sector corruption. Increased business in countries perceived to have heightened levels of corruption subjects us and our officers and directors to increased scrutiny and increased liability from our business operations. We have implemented and continue to update our compliance program but there is a risk that our employees, partners and agents, as well as those companies to which we outsource certain of our business operations, could take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. In addition, we are subject to global trade laws that apply to our worldwide operations, including restrictions on conducting business in certain restricted countries or with certain entities or individuals. For example, the U.S. and other countries have imposed economic and trade sanctions and export control restrictions against Russia and Belarus following the Russian invasion of Ukraine. Similarly, Russia has imposed counter sanctions that could jeopardize business in that region. While we had very little business in Russia, the restrictions and conflict have required us to reevaluate certain business opportunities and enforce compliance measures against certain existing customers and users. The full extent of the impact of Russia's invasion remains uncertain, but it may affect the purchasing decisions and digital transformation initiatives of some customers and potential customers. If the Russia-Ukraine conflict continues, the U.S., the European Union, the United Kingdom, and other jurisdictions could impose wider economic and trade sanctions as well as export restrictions, which could impact our business opportunities. Any violation of the U.S. Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), the UK Bribery Act, other applicable anti-corruption and anti-bribery laws, or applicable export control or trade sanctions laws by our employees or third-party intermediaries could result in regulatory investigations and whistleblower complaints, which could subject us to significant risks such as adverse media coverage and/or severe criminal or civil sanctions, which could materially adversely affect our reputation, business, operating results, and prospects.

Risks Related to the Operation of Our Business

If we or our third-party service providers experience an actual or perceived cyber-security event, our platform may be perceived as not being secure and we may lose customers and incur significant liabilities, any of which would harm our business and operating results.

Our operations involve the storage, transmission and processing of our customers’ confidential, proprietary and sensitive data, which may include personally identifiable information, protected health information, financial information and, in some cases, government information. While we have security measures and a data governance framework in place designed to protect customer information and prevent data loss, these measures may contain legacy code vulnerabilities, have limited implementation or be breached because of employee error or intentional action or third-party actions, including unintentional events or deliberate attacks by cyber criminals or foreign state actors, and result in someone obtaining unauthorized access to our instances and ultimately our customers' data or our data, intellectual property and other confidential business information. For example, third parties have attempted to fraudulently induce employees, contractors, or users to disclose information or to gain access to our data or our customers' data, and we have been the target of email scams that attempt to acquire personal information or company assets. Further, we have experienced increased cyberattacks and security challenges as the growing number of employees, vendors and other third parties that remotely access our systems increases our attack surface. We have also seen an increase in cyberattack volume, frequency, and sophistication driven by the global enablement of remote workforces.

Computer malware, ransomware, viruses, hacking, phishing and denial of service attacks by third parties have become more prevalent in our industry, and they, or attempts, have occurred on our and our third-party service providers' systems in the past and may occur again on these systems in the future. The frequency and sophistication of these malicious attacks have increased, and it appears that cyber crimes and cyber criminal networks, some of which may be state-supported, have been provided substantial resources and may target U.S. enterprises or our customers and their use of our products. In addition, we have established extensive development and testing environments for our engineers developing new products and features. Security protocols in those environments have necessarily been less rigorous than in environments housing customer data, but a vulnerability or security defect developed in that environment could become incorporated in code imported to our environments housing customer data. Similarly, in the unique circumstances where customer data may be utilized in developer environments for testing or learning, that data may be at greater risk. Because techniques used to sabotage, obtain unauthorized access to systems or prohibit authorized access to systems change frequently and generally may not be detected until successfully launched against a target, we have been and may continue to be unable to anticipate these techniques or to implement adequate preventative measures. This has included and may continue to include underlying infiltration of pre-existing systems, including those of our third-party service providers or customers, perpetrated by more sophisticated or state-supported attackers, including foreign cybersecurity attacks on U.S. technology companies identified in late 2020 and retaliatory cybersecurity attacks stemming from the Russian invasion of Ukraine. It may also include exploitation of vulnerabilities in third party or open source software code that may be incorporated into our own or our customers' systems, such as the vulnerability in the Java logging library known as "log4j" identified in late 2021 that affected many in our industry. The occurrence of these and other more sophisticated or state-supported attack campaigns may increase as geopolitical tensions and intermittent warfare continue or escalate outside of the U.S. For example, due to the Russia-Ukraine conflict, we and our customers, third-party vendors and service providers are subject to a heightened risk of cybersecurity attacks, phishing attacks, viruses, malware, ransomware, hacking or similar breaches from state-supported actors, including attacks that could materially disrupt our systems and operations, supply chain, and ability to make available or sell our products and services. We devote significant financial and personnel resources to implement and maintain security measures while meeting customer expectations as to the performance of our systems; however, as cyber-security threats develop and grow more complex and sophisticated over time, such as in connection with geopolitical warfare, we will continue to make significant further investments to protect data and infrastructure, but a residual risk may remain despite our preventative efforts. A security breach suffered by us or our third-party service providers, an attack against our service availability or unauthorized access or loss of data could result in a disruption to our service, litigation, service level agreement claims, indemnification and other contractual obligations, regulatory investigations, government fines and penalties, reputational damage, loss of sales and customers, mitigation and remediation expenses and other significant costs and liabilities. In addition, we may incur significant costs and operational consequences of paying to access data, investigating, remediating, complying with notice obligations and implementing additional measures designed to prevent actual or perceived security incidents. We also cannot be certain that our existing insurance coverage will continue to be available on acceptable terms or in sufficient amounts to cover the potentially significant losses that may result from a security incident or breach or the insurer will not deny coverage as to any future claim.

Further, in most instances, our customers administer access to the data held in their particular instance for their employees and service providers. While we offer tools and support, customers are not required to utilize them and may suffer a cyber-security event on their own systems, unrelated to our own, and allow a malicious actor to obtain access to the customer's information held on our platform. Even if such a breach is unrelated to our security programs or practices, such breach could result in our incurring significant economic and operational costs in investigating, remediating, and implementing additional measures to further protect our customers from their own vulnerabilities, and could result in reputational harm to us.

Digital supply chain attacks have increased in frequency and severity. We cannot guarantee that third parties and our supply chain infrastructure have not been compromised or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our platform, systems and network or the systems and networks of third parties that support us and our business. Third parties may also exploit vulnerabilities in, or obtain unauthorized access to, platforms, systems, networks, or physical facilities utilized by us or our third-party vendors or service providers. Furthermore, supply chain disruptions due to the Russian invasion of Ukraine (and resulting legal developments) and any indirect effects may further complicate any existing supply chain constraints.

Risks Related to General Economic Conditions

Global economic conditions may harm our industry, business and results of operations.

We operate globally and as a result, our business, revenues and profitability are impacted by global macroeconomic conditions. The success of our activities is affected by general economic and market conditions, including, among others, inflation, interest rates, tax rates, economic uncertainty, political instability, warfare, changes in laws, trade barriers, and economic and trade sanctions. The U.S. capital markets experienced and continue to experience extreme volatility and disruption following the global outbreak of COVID-19 in 2020 and the Russian invasion of Ukraine in 2022. Furthermore, inflation rates in the U.S. have recently increased to levels not seen in decades. Such economic volatility could adversely affect our business, financial condition, results of operations and cash flows, and future market disruptions could negatively impact us. These unfavorable economic conditions could increase our operating costs and, because our typical contracts with customers lock in our price for a few years, our profitability could be negatively affected. Geopolitical destabilization and warfare have impacted and could continue to impact global currency exchange rates, commodity prices, trade and movement of resources, which may adversely affect the buying power of our customers, our access to and cost of resources from our suppliers, and ability to operate or grow our business. In addition, from time to time, the U.S. and other key international economies have been impacted by geopolitical and economic instability, high levels of credit defaults, international trade disputes, changes in demand for various goods and services, high levels of persistent unemployment, wage and income stagnation, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, inflation, bankruptcies, international trade agreements, export controls, economic and trade sanctions, and overall economic uncertainty. These conditions can arise suddenly and affect the rate of digital transformation spending and could adversely affect our customers' or prospective customers' ability or willingness to purchase our services, delay purchasing decisions, reduce the value or duration of their subscriptions, or affect renewal rates, all of which could harm our operating results. Further, while our ability to do business has not been materially affected, the Russian invasion of Ukraine and the global restrictive measures that have been taken, and could be taken in the future, have created significant global economic uncertainty that could prolong and escalate tensions and expand the geopolitical conflict, which could have a lasting impact on regional and global economies, any of which could harm our business and operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Restated Certificate of Incorporation of Registrant, as amended	8-K	001-35580	3.1	6/9/2021	
3.2	Restated Bylaws of Registrant	8-K	001-35580	3.2	6/9/2021	
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

* The certifications on Exhibit 32 hereto are deemed not “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that Section. Such certifications will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

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

		ServiceNow, Inc.
Date: October 26, 2022	By:	/s/ William R. McDermott
		William R. McDermott
		President and Chief Executive Officer
		(Principal Executive Officer)
Date: October 26, 2022	By:	/s/ Gina Mastantuono
		Gina Mastantuono
		Chief Financial Officer
		(Principal Financial Officer)
Date: October 26, 2022	By:	/s/ Kevin McBride
		Kevin McBride
		Chief Accounting Officer
		(Principal Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William R. McDermott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceNow, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2022

/s/ William R. McDermott

William R. McDermott
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gina Mastantuono, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceNow, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2022

/s/ Gina Mastantuono

Gina Mastantuono
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, William R. McDermott, Chief Executive Officer of ServiceNow, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 26, 2022

/s/ William R. McDermott

William R. McDermott
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to ServiceNow, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, Gina Mastantuono, Chief Financial Officer of ServiceNow, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 26, 2022

/s/ Gina Mastantuono

Gina Mastantuono
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to ServiceNow, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.