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 March 31, 2021

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 Act). Yes ☐ No ☒

As of March 31, 2021, there were approximately 197.4 million shares of the Registrant’s Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,821	$ 1,677
Short-term investments	1,635	1,415
Accounts receivable, net	645	1,009
Current portion of deferred commissions	241	229
Prepaid expenses and other current assets	182	192
Total current assets	4,524	4,522
Deferred commissions, less current portion	471	444
Long-term investments	1,348	1,468
Property and equipment, net	693	660
Operating lease right-of-use assets	455	454
Intangible assets, net	221	153
Goodwill	361	241
Deferred tax assets	643	673
Other assets	106	100
Total assets	$ 8,822	$ 8,715
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 109	$ 34
Accrued expenses and other current liabilities	484	668
Current portion of deferred revenue	2,994	2,963
Current portion of operating lease liabilities	77	72
Total current liabilities	3,664	3,737
Deferred revenue, less current portion	50	45
Operating lease liabilities, less current portion	420	423
Long-term debt, net	1,611	1,640
Other long-term liabilities	40	36
Total liabilities	5,785	5,881
Commitments and contingencies		
Stockholders' equity:		
Common stock	—	—
Additional paid-in capital	3,133	2,974
Accumulated other comprehensive income	56	94
Accumulated deficit	(152)	(234)
Total stockholders' equity	3,037	2,834
Total liabilities and stockholders' equity	$ 8,822	$ 8,715

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2021	2020
Revenues:		
Subscription	$ 1,293	$ 995
Professional services and other	67	51
Total revenues	1,360	1,046
Cost of revenues[1]:		
Subscription	228	160
Professional services and other	71	63
Total cost of revenues	299	223
Gross profit	1,061	823
Operating expenses[1]:		
Sales and marketing	524	441
Research and development	314	227
General and administrative	126	106
Total operating expenses	964	774
Income from operations	97	49
Interest expense	(7)	(9)
Other income, net	9	8
Income before income taxes	99	48
Provision for income taxes	17	—
Net income	$ 82	$ 48
Net income per share - basic	$ 0.42	$ 0.25
Net income per share - diluted	$ 0.41	$ 0.24
Weighted-average shares used to compute net income per share - basic	196,624	190,163
Weighted-average shares used to compute net income per share - diluted	202,268	199,938
Other comprehensive income:		
Foreign currency translation adjustments	$ (31)	$ (20)
Unrealized losses on investments, net of tax	(7)	(20)
Other comprehensive income	(38)	(40)
Comprehensive income	$ 44	$ 8

(1) Includes stock-based compensation as follows:

	Three Months Ended March 31,	
	2021	2020
Cost of revenues:		
Subscription	$ 29	$ 22
Professional services and other	13	12
Operating expenses:		
Sales and marketing	93	70
Research and development	88	59
General and administrative	33	26

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 March 31, 2021					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2020	195,845	$ —	$ 2,974	$ (234)	$ 94	$ 2,834
Common stock issued under employee stock plans	1,066	—	94	—	—	94
Taxes paid related to net share settlement of equity awards	—	—	(191)	—	—	(191)
Stock-based compensation	—	—	256	—	—	256
Settlement of 2022 Warrants	536	—	—	—	—	—
Settlement of 2022 Notes conversion feature	—	—	(102)	—	—	(102)
Benefit from exercise of 2022 Note Hedge	—	—	102	—	—	102
Other comprehensive income, net of tax	—	—	—	—	(38)	(38)
Net income	—	—	—	82	—	82
Balance at March 31, 2021	197,447	$ —	$ 3,133	$ (152)	$ 56	$ 3,037

	Three Months Ended March 31, 2020					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	189,461	$ —	$ 2,455	$ (352)	$ 25	$ 2,128
Common stock issued under employee stock plans	1,239	—	67	—	—	67
Taxes paid related to net share settlement of equity awards	—	—	(126)	—	—	(126)
Stock-based compensation	—	—	189	—	—	189
Settlement of 2022 Notes conversion feature	—	—	(4)	—	—	(4)
Benefit from exercise of 2022 Note Hedge	—	—	4	—	—	4
Other comprehensive income, net of tax	—	—	—	—	(40)	(40)
Net income	—	—	—	48	—	48
Balance at March 31, 2020	190,700	$ —	$ 2,585	$ (304)	$ (15)	$ 2,266

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net income	$ 82	$ 48
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106	76
Amortization of deferred commissions	66	49
Amortization of debt discount and issuance costs	2	9
Stock-based compensation	256	188
Deferred income taxes	1	(2)
Repayments of convertible senior notes attributable to debt discount	(7)	—
Other	15	3
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	354	209
Deferred commissions	(114)	(71)
Prepaid expenses and other assets	(3)	(20)
Accounts payable	89	21
Deferred revenue	75	60
Accrued expenses and other liabilities	(195)	(78)
Net cash provided by operating activities	727	492
Cash flows from investing activities:		
Purchases of property and equipment	(107)	(83)
Business combinations, net of cash acquired	(225)	(83)
Purchases of investments	(644)	(528)
Sales and maturities of investments	532	313
Other	7	(4)
Net cash used in investing activities	(437)	(385)
Cash flows from financing activities:		
Repayments of convertible senior notes attributable to principal	(28)	(2)
Proceeds from employee stock plans	95	67
Taxes paid related to net share settlement of equity awards	(191)	(126)
Net cash used in financing activities	(124)	(61)
Foreign currency effect on cash, cash equivalents and restricted cash	(18)	(11)
Net increase in cash, cash equivalents and restricted cash	148	35
Cash, cash equivalents and restricted cash at beginning of period	1,679	778
Cash, cash equivalents and restricted cash at end of period	$ 1,827	$ 813
Cash, cash equivalents and restricted cash at end of period:		
Cash and cash equivalents	$ 1,821	$ 809
Restricted cash included in prepaid expenses and other current assets	6	4
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 1,827	$ 813
Supplemental disclosures of other cash flow information:		
Interest paid	$ 15	$ —
Income taxes paid, net of refunds	12	7
Non-cash investing and financing activities:		
Settlement of 2022 Notes conversion feature	$ 102	$ 4
Benefit from exercise of 2022 Note Hedge	102	4
Property and equipment included in accounts payable and accrued expenses	28	41

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's purpose is to make the world of work, work better for people. We believe that people want the technology they use in their work to be more efficient and easier to use. We build applications to meet that demand by automating existing processes and creating efficient, digitized workflows with a consumer grade user experience. Our products and services enable the steps of a job to flow naturally across disparate departments, systems and processes of a business. ServiceNow delivers digital workflows on a single enterprise cloud platform called the Now Platform®. Our product portfolio is currently focused on providing Information Technology ("IT"), Employee and Customer workflows in standardized product offerings. We also enable our customers to design and build their own custom workflow applications using our Creator workflows, formerly called the Now Platform App Engine, and to integrate those applications with third party systems through our Integration Hub.

(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. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2020 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, 2020, which was filed with the SEC on February 12, 2021.

Principles of Consolidation

The 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.

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, 2020, which was filed with the SEC on February 12, 2021.

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 March 31, 2021, we had one customer, a channel partner, that represented 13% of our accounts receivable and no customers that individually exceeded 10% of our total revenues in any of the periods presented. As of December 31, 2020, there were no customers that represented more than 10% of our accounts receivable balance. 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.

Accounting Pronouncement Adopted in 2021

Income taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2019-12, "Income Taxes ("Topic 740"): Simplifying the Accounting for Income Taxes," which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and amending existing guidance to improve consistent application. Most amendments within this standard are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We adopted this standard on a prospective basis as of January 1, 2021. The adoption of this standard did not result in any material impact on our condensed consolidated financial statements upon adoption.

Recently Issued Accounting Pronouncement Pending Adoption

Debt with Conversion Options

In August 2020, the FASB issued new guidance to simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The standard eliminates beneficial conversion feature and cash conversion models resulting in more convertible instruments being accounted for as a single unit; and simplifies classification of debt on the balance sheet and earnings per share calculation. This new standard is effective for our interim and annual periods beginning January 1, 2022 and earlier adoption is permitted. Amendments within this standard are required to be applied on a retrospective or modified retrospective basis. We are currently evaluating the impact of the adoption of this standard on our condensed consolidated financial statements.

(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):

	March 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 458	$ —	$ —	$ 458
Corporate notes and bonds	2,319	6	(1)	2,324
Certificates of deposit	74	—	—	74
U.S. government and agency securities	97	—	—	97
Mortgage and asset backed securities	31	—	(1)	30
Total available-for-sale securities	$ 2,979	$ 6	$ (2)	$ 2,983

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 406	$ —	$ —	$ 406
Corporate notes and bonds	2,298	10	—	2,308
Certificates of deposit	23	—	—	23
U.S. government and agency securities	145	1	—	146
Total available-for-sale securities	$ 2,872	$ 11	$ —	$ 2,883

As of March 31, 2021, 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 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):

	March 31, 2021
Due within 1 year	$ 1,635
Due in 1 year through 5 years	1,318
Instruments not due in single maturity	30
Total	$ 2,983

As of March 31, 2021, the fair values and the gross unrealized losses of these available-for-sale debt securities, classified by the length of time that the securities have been in a continuous unrealized loss position, and aggregated by investment types, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheets (in millions), are as follows:

	March 31, 2021					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$ 1,027	$ (1)	$ —	$ —	$ 1,027	$ (1)
Mortgage and asset backed securities	27	(1)	—	—	27	(1)
Total	$ 1,054	$ (2)	$ —	$ —	$ 1,054	$ (2)

As of December 31, 2020, the gross unrealized losses related to fair value $637 million available-for-sale debt securities that have been in a continuous unrealized loss position were not material.

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 deemed material as of March 31, 2021.

Strategic Investments

As of March 31, 2021 and December 31, 2020, the total amount of equity investments in privately-held companies included in other assets on our condensed consolidated balance sheets was $37 million and $28 million, respectively. We classify these assets as Level 3 within the fair value hierarchy as only an impairment or observable adjustment is recognized based on observable transaction price at the transaction date of identical or similar investment of the same issuer and other unobservable inputs such as volatility.

(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 March 31, 2021 (in millions):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 1,059	$ —	$ 1,059
Commercial paper	—	34	34
Corporate notes and bonds	—	3	3
Deposits	100	—	100
U.S. government and agency securities	—	69	69
Marketable securities:			
Commercial paper	—	458	458
Corporate notes and bonds	—	2,324	2,324
Certificates of deposit	—	74	74
U.S. government and agency securities	—	97	97
Mortgage and asset backed securities	—	30	30
Total	$ 1,159	$ 3,089	$ 4,248

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis as of December 31, 2020 (in millions):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 1,305	$ —	$ 1,305
U.S. government and agency securities	—	2	2
Marketable securities:			
Commercial paper	—	406	406
Corporate notes and bonds	—	2,308	2,308
Certificates of deposit	—	23	23
U.S. government and agency securities	—	146	146
Total	$ 1,305	$ 2,885	$ 4,190

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), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

Our equity investments in privately-held companies 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 January 8, 2021, we acquired all outstanding stock of Element AI Inc. ("Element"), a leading enterprise artificial intelligence (“AI”) solution provider for $228 million in an all-cash transaction. We have included the financial results of Element in the condensed consolidated financial statements from the date of acquisition, which were not material to date. The purchase price was allocated based on the estimated fair value of developed technology intangible asset of $85 million (five-year estimated useful life), net tangible assets of $16 million and goodwill of $126 million, which is partially deductible for income tax purposes. We established an unrecognized tax benefit of $43 million on pre-acquisition net operating loss carryforwards and other tax attributes. Goodwill is primarily attributed to the assembled workforce and expanded market opportunities.

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 valuation as soon as practicable, but not later than one year from the acquisition date.

Aggregate acquisition-related costs associated with business combinations are not material for the three months ended March 31, 2021 and 2020 and are included in general and administrative expenses in our condensed consolidated statements of comprehensive income as incurred. The results of operations of these business combinations have been included in our condensed consolidated financial statements from their respective dates of purchase.

(6) Goodwill and Intangible Assets

Goodwill balances are presented below (in millions):

	Carrying Amount
Balance as of December 31, 2020	$ 241
Goodwill acquired	126
Foreign currency translation adjustments	(6)
Balance as of March 31, 2021	$ 361

Intangible assets consist of the following (in millions):

	March 31, 2021	December 31, 2020
Developed technology	$ 308	$ 226
Patents	62	65
Other	5	3
Intangible assets, gross	375	294
Less: accumulated amortization	(154)	(141)
Intangible assets, net	$ 221	$ 153

The weighted-average useful life for the developed technology acquired during the three months ended March 31, 2021 was approximately five years. Amortization expense for intangible assets for the three months ended March 31, 2021 and 2020 was $17 million and $10 million, respectively.

The following table presents the estimated future amortization expense related to intangible assets held at March 31, 2021 (in millions):

Years Ending December 31,		
Remainder of 2021	$	44
2022		55
2023		49
2024		43
2025		23
Thereafter		7
Total future amortization expense	$	221

(7) Property and Equipment

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

	March 31, 2021		December 31, 2020	
Computer equipment	$	1,020	$	974
Computer software		74		72
Leasehold and other improvements		180		168
Furniture and fixtures		70		69
Construction in progress		6		9
Property and equipment, gross		1,350		1,292
Less: Accumulated depreciation		(657)		(632)
Property and equipment, net	$	693	$	660

Construction in progress consists primarily of leasehold and other improvements and in-process software development costs. Depreciation expense for the three months ended March 31, 2021 and 2020 was $71 million and $51 million, respectively.

(8) Derivative Contracts

As of March 31, 2021 and December 31, 2020, we had foreign currency forward contracts with total notional values of $504 million and $583 million, respectively, which are not designated as hedging instruments. Our foreign currency 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. The fair value of these outstanding derivative contracts was as follows (in millions):

	Condensed Consolidated Balance Sheet Location	March 31, 2021		December 31, 2020	
Derivative Assets:					
Foreign currency derivative contracts	Prepaid expenses and other current assets	$	2	$	8
Derivative Liabilities:					
Foreign currency derivative contracts	Accrued expenses and other current liabilities	$	2	$	10

(9) Deferred Revenue and Performance Obligations

Revenues recognized during the three months ended March 31, 2021 from amounts included in deferred revenue as of December 31, 2020 were $1.1 billion. Revenues recognized during the three months ended March 31, 2020 from amounts included in deferred revenue as of December 31, 2019 were $0.8 billion.

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 March 31, 2021, the total non-cancelable RPO under our contracts with customers was $8.8 billion and we expect to recognize revenues on approximately 50% of these RPO over the following 12 months, with the balance to be recognized thereafter.

(10) Long-Term Debt

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

	March 31, 2021		December 31, 2020	
	2030 Notes	**2022 Notes**	**2030 Notes**	**2022 Notes**
Long-term debt				
Principal	$ 1,500	$ 135	$ 1,500	$ 169
Less: debt issuance cost and debt discount, net of amortization	(17)	(7)	(18)	(11)
Net carrying amount	$ 1,483	$ 128	$ 1,482	$ 158
Effective interest rate of the liability component - 2022 Notes		4.75%		
Effective interest rate - 2030 Notes		1.53%		

The effective interest rates for the 2030 Notes and 2022 Notes include interest payable, amortization of debt issuance cost and amortization of debt discount, as applicable.

We consider the fair value of the 2030 Notes and 2022 Notes at March 31, 2021 to be a Level 2 measurement. The estimated fair value of the 2030 Notes and 2022 Notes at March 31, 2021 and December 31, 2020 is based on the closing trading price per $100 of the 2030 Notes and 2022 Notes were as follows (in millions):

	March 31, 2021	December 31, 2020
2022 Notes	$ 479	$ 687
2030 Notes	$ 1,354	$ 1,463

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. 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 are due June 1, 2022 unless earlier converted or repurchased in accordance with their terms. The 2022 Notes do not bear interest, and we cannot redeem the 2022 Notes prior to maturity. The 2022 Notes are unsecured obligations and do 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. 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 are amortized to interest expense using the effective interest method over the term of the 2022 Notes.

Upon conversion of the 2022 Notes, we may choose to pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock upon settlement. We currently intend to settle the principal amount of the 2022 Notes with cash.

	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 prior to the Convertible Date. At any time prior to the close of business on the business day immediately preceding February 1, 2022 ("Convertible Date"), holders of the 2022 Notes may convert their 2022 Notes at their option, only if one of the following conditions are met:

- during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) 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"); or

- during the five-business day period after any five-consecutive trading day period, or the measurement period, in which the trading price per $1,000 principal amount of the 2022 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or

- upon the occurrence of specified corporate events.

For conversion requests received prior to maturity, the difference between the fair value and the amortized book value is recorded as a gain or loss on early note conversion.

Conversion of the 2022 Notes on or after the Convertible Date. On or after the Convertible Date, a holder may 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, regardless of the foregoing conditions, and such conversions will settle upon maturity. Upon settlement, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

The conversion price of the 2022 Notes will be subject to adjustment in some events. Holders of the 2022 Notes who convert their 2022 Notes in connection with certain corporate events that constitute a "make-whole fundamental change" are, under certain circumstances, entitled to an increase in the conversion rate. Additionally, in the event of a corporate event that constitutes a "fundamental change," holders of the 2022 Notes may require us to purchase with cash all or a portion of the 2022 Notes upon the occurrence of a fundamental change, at a purchase price equal to 100% of the principal amount of the 2022 Notes plus any accrued and unpaid special interest, if any.

The Conversion Condition for the 2022 Notes was met for all the quarters ended June 30, 2018 through March 31, 2021, except for the quarter ended December 31, 2018. Therefore, our 2022 Notes became convertible at the holders' option beginning on July 1, 2018 and continue to be convertible through June 30, 2021, 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 three months ended March 31, 2021, we paid cash to settle $34 million in principal of the 2022 Notes and the loss on the early note conversions was not material. As a result of the settlements, we also recorded a net reduction to additional paid-in capital, reflecting $102 million fair value adjustments to the settled conversion option partially offset by a $102 million benefit from the 2022 Note Hedge (as defined below).

Based on conversion requests received through the filing date, we expect to settle in cash an aggregate of approximately $30 million in principal amount of the 2022 Notes during the second quarter of 2021. We may receive additional conversion requests that require settlement in the second quarter of 2021 and future periods.

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, 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 March 31, 2021
		(in millions)	
2022 Note Hedge	$ 128	6	1

The 2022 Note Hedge covers shares of our common stock at a strike price per share that corresponds to the initial conversion price of the 2022 Notes, subject to adjustment, and are exercisable upon conversion of the 2022 Notes. If exercised, we may elect to receive cash, shares of our common stock, or a combination of cash and shares. The 2022 Note Hedge will expire upon the maturity of the 2022 Notes. The 2022 Note Hedge is 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 is a separate transaction and is not part of the terms of the 2022 Notes. Holders of the 2022 Notes will not have any rights with respect to the 2022 Note Hedge. The 2022 Note Hedge does 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 March 31, 2021
	(in millions)	(in millions)			(in millions)
2022 Warrants	$ 54	6	$ 203.40	September 1, 2022	1

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, exceeds 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 are separate transactions and are not remeasured through earnings each reporting period. The 2022 Warrants are 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 and 2.3 million shares of our common stock during the three months ended March 31, 2021 and year ended December 31, 2020, respectively.

According to the terms, the remaining portion of the 2022 Warrants will be net share settled and automatically exercised over a 60 trading day period beginning on the first expiration date as set forth above based on the daily volume-weighted average stock prices over the same 60 trading day period.

We expect to issue additional shares of our common stock in the second half of 2022 upon the automatic exercise of the remaining portion of the 2022 Warrants. The remaining portion of the 2022 Warrants could have a dilutive effect to the extent that the daily volume-weighted average stock prices over a 60 trading day period beginning on September 1, 2022 exceeds the strike price of the 2022 Warrants. Based on the volume-weighted average stock price on March 31, 2021, the total number of shares of our common stock to be issued upon the automatic exercise of the remaining portion of the 2022 Warrants would be approximately 0.6 million. The actual number of shares of our common stock issuable upon the automatic exercise of the remaining portion of the 2022 Warrants, if any, is unknown at this time.

(11) Accumulated Other Comprehensive Income

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

	March 31, 2021	December 31, 2020
Foreign currency translation adjustment	$ 56	$ 87
Net unrealized losses on investments, net of tax	—	7
Accumulated other comprehensive income	$ 56	$ 94

Reclassification adjustments out of accumulated other comprehensive income 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 March 31, 2021. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of March 31, 2021, we had 197.4 million shares of common stock outstanding and had reserved shares of common stock for future issuance as follows (in thousands):

	March 31, 2021
Stock plans:	
Options outstanding	454
RSUs(1)	8,047
Shares of common stock available for future grants:	
2012 Equity Incentive Plan(2)	26,603
2012 Employee Stock Purchase Plan(2)	9,526
Total shares of common stock reserved for future issuance	44,630

(1) Represents the number of shares issuable upon settlement of outstanding restricted stock units (“RSUs”) and performance-based RSUs (“PRSUs”), assuming 100% of the target number of shares for performance-based RSUs, as discussed under the section entitled “RSUs” in Note 13.
(2) Refer to Note 13 for a description of these plans.

During the three months ended March 31, 2021 and 2020, we issued a total of 1.1 million shares and 1.2 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, we issued 0.5 million shares of our common stock upon partial unwind of the 2022 Warrants during the three months ended March 31, 2021.

(13) Equity Awards

We currently have two equity incentive plans, our 2005 Stock Option Plan (the “2005 Plan”) and our 2012 Equity Incentive Plan (the “2012 Plan”). Our 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 our 2005 Plan.

Our 2012 Plan provides 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 2012 Plan provides 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. The share reserve may increase to the extent outstanding stock options under the 2005 Plan expire or terminate unexercised. Prior to January 2019, the share reserve also automatically increased on January 1 of each year, by up to 5% of the total number of shares of common stock outstanding on December 31 of the preceding year as determined by our board of directors. In January 2019, our Board of Directors amended the 2012 Plan to remove the automatic increase provision. Therefore, for the remaining term of the 2012 Plan, the share reserve will not be increased without stockholder approval.

Our 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. The number of shares of common stock reserved for issuance automatically increases on January 1 of each year until January 1, 2022, 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.

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 our 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. 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 three months ended March 31, 2021 was as follows:

	Number of Shares (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2020	522	$ 107.14		
Granted	36	$ 587.91		
Exercised	(104)	$ 88.28		$ 47
Outstanding at March 31, 2021	454	$ 149.23	5.0	
Vested and expected to vest as of March 31, 2021	429	$ 137.40	4.7	$ 158
Vested and exercisable as of March 31, 2021	298	$ 50.86	2.9	$ 134

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 three months ended March 31, 2021 was $1 million. As of March 31, 2021, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately $14 million. The weighted-average remaining vesting period of unvested stock options at March 31, 2021 was approximately four years.

RSUs

A summary of RSU activity for the three months ended March 31, 2021 was as follows:

	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2020	7,362	$ 274.23	
Granted	2,004	$ 577.94	
Vested	(1,060)	$ 226.59	$ 620
Forfeited	(259)	$ 330.43	
Outstanding at March 31, 2021	8,047	$ 352.48	

RSUs outstanding as of March 31, 2021 were comprised of 7.6 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 three months ended March 31, 2021 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 shown 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 $24 million and $14 million of stock-based compensation, net of actual and estimated forfeitures, associated with PRSUs on a graded vesting basis during the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately $2.2 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 March 31,	
	2021	2020
Numerator:		
Net income	$ 82,440	$ 48,231
Denominator:		
Weighted-average shares outstanding - basic	196,624	190,163
Weighted-average effect of potentially dilutive securities:		
Common stock options	351	756
RSUs	3,671	3,751
2022 Notes	748	3,229
2022 Notes settlements	50	10
2022 Warrants	618	2,029
Partial settlement of 2022 Warrants	206	—
Weighted-average shares outstanding - diluted	202,268	199,938
Net income per share - basic	$ 0.42	$ 0.25
Net income per share - diluted	$ 0.41	$ 0.24

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 March 31,	
	2021	2020
Common stock options	36	161
RSUs	1,748	2,494
ESPP obligations	144	178
Total potentially dilutive securities	1,928	2,833

(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 $17 million for the three months ended March 31, 2021. 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 not material for the three months ended March 31, 2020, as our foreign taxes were entirely offset by release of valuation allowance resulting from an acquisition and excess tax benefits of stock-based compensation.

Governments in certain countries where we do business have enacted legislation in response to the COVID-19 pandemic, including the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) enacted by the United States on March 27, 2020. We are continuing to analyze these legislative developments and believe that they have not had a material impact on our provision for income taxes for the three months ended March 31, 2021.

We are subject to taxation in the United States and foreign jurisdictions. As of March 31, 2021, our tax years 2004 to 2020 remain subject to examination in most jurisdictions.

Due to differing interpretations of tax laws and regulations, tax authorities may dispute our tax filings 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 $22 million and $19 million excluding short-term lease costs, variable lease costs and sublease income, each of which were immaterial, for the three months ended March 31, 2021 and 2020, respectively.

For the three months ended March 31, 2021, cash paid for amounts included in the measurement of operating lease liabilities was $18 million and operating lease liabilities arising from obtaining operating right-of-use assets totaled $21 million.

As of March 31, 2021, the weighted-average remaining lease term is 8 years, and the weighted-average discount rate is 3.4%.

Maturities of operating lease liabilities as of March 31, 2021 are presented in the table below (in millions):

Remainder of 2021	$	70
2022		91
2023		86
2024		67
2025		57
Thereafter		221
Total operating lease payments		592
Less: imputed interest		(95)
Present value of operating lease liabilities	$	497

In addition to the amounts above, as of March 31, 2021, we have operating leases, primarily for offices, that have not yet commenced with undiscounted cash flows of $340 million. These operating leases will commence between 2021and 2022 with lease terms of 4 to 14 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 three months ended March 31, 2021 that were outside the ordinary course of business.

In addition to the amounts above, the repayment of our 2022 Notes and 2030 Notes with an aggregate principal amount of $135 million and $1.5 billion is due on June 1, 2022 and September 1, 2030, respectively. Refer to Note 10 for further information regarding our Notes.

Also, $23 million of unrecognized tax benefits have been recorded as liabilities as of March 31, 2021.

Letters of Credit

As of March 31, 2021, we had letters of credit in the aggregate amount of $18 million, primarily in connection with our customer contracts and operating leases.

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 March 31,	
	2021	2020
North America(1)	$ 883	$ 702
EMEA(2)	343	251
Asia Pacific and other	134	93
Total revenues	$ 1,360	$ 1,046

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

	March 31, 2021	December 31, 2020
North America(3)	$ 420	$ 395
EMEA(2)	179	172
Asia Pacific and other	94	93
Total property and equipment, net	$ 693	$ 660

(1) Revenues attributed to the United States were 94% of North America revenues for each of the three months ended March 31, 2021 and 2020, respectively.
(2) Europe, the Middle East and Africa (“EMEA”)
(3) Property and equipment, net attributed to the United States were approximately 78% of property and equipment, net attributable to North America as of March 31, 2021 and December 31, 2020.

Subscription revenues consist of the following (in millions):

	Three Months Ended March 31,	
	2021	2020
Digital workflow products	$ 1,131	$ 868
ITOM products	162	127
Total subscription revenues	$ 1,293	$ 995

Our digital workflow products include the Now Platform, IT Service Management, IT Business Management, DevOps, 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, Connected Operations, Financial Services Operations, Telecommunications Service Management, Telecommunications Network Performance Management, App Engine and IntegrationHub, and are generally priced on a per user basis. Our ITOM products are generally priced on a per node (physical or virtual server) basis.

(18) Subsequent Events

On April 16, 2021, we completed the acquisition of Uber Techlabs Private Limited, d/b/a Intellibot, by acquiring all issued and outstanding shares in an all-cash transaction to improve our end-to-end automation capabilities. We are currently evaluating the purchase price allocation for this transaction.

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, 2020 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”), on February 12, 2021. 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. Such 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, impacts on our business, future financial performance and general economic conditions due to the current COVID-19 pandemic, 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 12, 2021 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 and billings measures included in the sections entitled “—Key Business Metrics—Free Cash Flow,” and “—Key Business Metrics—Billings” are not in accordance with GAAP. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other companies, limiting their 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.

COVID-19 Environment

The COVID-19 pandemic has created significant global economic uncertainty, adversely impacted the business of our customers, partners and vendors, and impacted our business and results of operations. As of the filing date, the extent to which the COVID-19 pandemic may continue to impact our business and future financial condition or results of operations remains uncertain. We are continuing to monitor the actual and potential effects of the COVID-19 pandemic across our business. While our revenues, billings and earnings are relatively predictable as a result of our subscription-based business model, the effect of the COVID-19 pandemic, along with the seasonality we historically experience, may not be fully reflected in our results of operations and overall financial performance until future periods, if at all, and could cause our future results of operations to vary significantly from period to period. As the uncertainty continues, we may experience an increase in curtailed customer demand, reduced customer spend or contract duration, delayed collections, lengthened payment terms, lengthened sales cycles or competition due to changes in terms and conditions and pricing of our competitors’ products and services, our business, results of operations and overall financial performance in future periods could be materially adversely affected. Additionally, it is unclear to what extent certain reductions in expenditures noted in the year ended December 31, 2020 into the first quarter of 2021 due to actions taken in response to the COVID-19 pandemic will continue to be reduced below historical levels. The extent and continued impact of the COVID-19 pandemic on our operational and financial performance will depend on certain developments, including: the duration and spread of the outbreak; government responses, including the effectiveness, extent and duration of mitigation efforts such as “shelter in place”, availability of vaccinations and similar directives; impact on our customers, sales cycles and ability to generate new business; impact on our customer, industry or employee events; extent of delays in hiring and onboarding new employees mainly in our general and administrative functions; and effect on our partners, vendors and supply chains; all of which are highly uncertain and difficult to predict.

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 released various applications beginning in the first quarter of 2020 to help customers navigate the COVID-19 pandemic including the essential steps for returning employees to the workplace to support their health and safety and help users, healthcare providers and clinics to manage vaccinations from start to finish. Further, we temporarily closed most of our offices beginning in the first quarter of 2020 and encouraged our employees to work remotely, which remains in effect in the second quarter of 2021 and could extend into future quarters. 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. See the section “Risk Factors” in Part 1, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 12, 2021 for further discussion of the possible impact of the COVID-19 pandemic on our business.

Overview

ServiceNow’s purpose is to make the world of work, work better for people. We believe that people want the technology they use in their work to be more efficient and easier to use. We build applications to meet that demand by automating existing processes and creating efficient, digitized workflows with a consumer grade user experience. Our products and services enable the steps of a job to flow naturally across disparate departments, systems and processes of a business. When work flows naturally, great experiences follow. We primarily deliver our software via the Internet as a service through a simple and easy-to-use interface so that we can rapidly deploy our packaged offerings, and customers can easily build their custom applications. In a minority of cases, customers choose to host our software by themselves or through a third-party service provider.

We generally offer our services on an annual subscription fee basis, which includes access to the ordered subscription service and related standard and enhanced support, including updates to the subscription service during the subscription term. Pricing for our subscription services is based on a number of factors, including duration of subscription term, volume, mix of products purchased, and discounts. We generate sales through our direct sales team and, to a lesser extent, indirectly through resale partners and third-party referrals. We also generate revenues from professional services and for training of customer and partner personnel. Our professional services organization is focused on strategic advisory, implementation and consulting services to accelerate platform adoption and drive customer outcomes. We generally bill our customers annually in advance for subscription services and monthly in arrears for our professional services as the work is performed.

A majority of our revenues come from large global enterprise customers. We continue to invest in the development of our services, infrastructure and sales and marketing to drive long-term growth.

Key Business Metrics

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 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 March 31, 2021, our RPO was $8.8 billion, of which 50% represented cRPO. 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 which has been the highest in the quarter ended September 30, 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 the contracts to co-terminate with the existing contract. 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 1,146 and 933 customers with ACV greater than $1 million as of March 31, 2021 and 2020, 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:

	Three Months Ended March 31,		
	2021	**2020**	**% Change**
	(dollars in millions)		
Free cash flow:			
Net cash provided by operating activities	$ 727	$ 492	48 %
Purchases of property and equipment	(107)	(83)	29 %
Free cash flow[(1)]	$ 620	$ 409	52 %

(1) Free cash flow for the three months ended March 31, 2021 includes the effect of $7 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 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 renewal. 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. Additionally, starting in 2020, we simplified our methodology related to contracts less than 12 months to derive ACV used to calculate renewal rate. Previously disclosed renewal rates may be restated to reflect such adjustments or methodology simplification to allow for comparability. However, there were no material changes to such previously disclosed renewal rates. Our renewal rate was 97% for each of the three months ended March 31, 2021 and 2020. 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.

Billings. We define billings, a non-GAAP financial measure, as GAAP revenues recognized plus the change in total GAAP unbilled receivables, deferred revenue and customer deposits as presented on the condensed consolidated statements of cash flows. The calculation of billings is provided below:

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Billings:			
Total revenues	$ 1,360	$ 1,046	30 %
Change in deferred revenue, unbilled receivables and customer deposits(1)	75	57	32 %
Total billings	$ 1,435	$ 1,103	30 %
Year over year percentage change in total billings	30 %	29 %	

(1) As presented on or derived from our condensed consolidated statements of cash flows.

Billings consists of amounts invoiced for subscription contracts with existing customers, renewal contracts, expansion contracts, contracts with new customers, and contracts for professional services and training. Factors that may cause our billings results to vary from period to period include the following:

- *Billings duration*. While we typically bill customers annually in advance for our subscription services, customers sometimes request, and we accommodate, billings with durations less than or greater than the typical 12-month term.

- *Contract start date*. From time to time, we enter into contracts with a contract start date in the future, and we exclude these amounts from billings as these amounts are not included in our condensed consolidated balance sheets, unless such amounts have been paid as of the balance sheet date.

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

  Foreign currency rate fluctuations had a favorable impact of $41 million on billings for the three months ended March 31, 2021. Changes in billings duration had a favorable impact of $11 million for the three months ended March 31, 2021.

- *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.

- *Seasonality*. We have historically experienced seasonality in terms of when we enter into customer agreements for our services. 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 in the timing of entering into customer contracts is sometimes not immediately apparent in our billings, due to the fact that we typically exclude cloud-offering contracts with a future start date from our billings, unless such amounts have been paid as of the balance sheet date. Similarly, this seasonality is reflected to a much lesser extent, and sometimes is 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. 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. Further, the seasonal factors could be heightened due to the impact of the current gross domestic product contraction and other impacts unknown at this time on our customers and sales cycles caused by the COVID-19 pandemic.

While we believe billings is one indicator of the performance of our business, due to the factors described above, an increase or decrease in billings may not reflect the actual performance for that reporting period.

To facilitate greater year-over-year comparability in our billings results, we disclose the impact that foreign currency rate fluctuations and fluctuations in billings duration had on our billings. The impact of foreign currency rate fluctuations is calculated by translating the current period results for entities reporting in currencies other than U.S. Dollars into U.S. Dollars at the exchange rates in effect during the prior period presented, rather than the actual exchange rates in effect during the current period. The impact of fluctuations in billings duration is calculated by replacing the portion of multi-year billings in excess of 12 months during the current period with the portion of multi-year billings in excess of 12 months during the prior period presented. Notwithstanding the adjustments described above, the comparability of billings results from period to period remains subject to the impact of variations in the dollar value of contracts with future start dates and the timing of contract renewals, for which no adjustments have been presented.

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 80% and 81% of our total revenues for the three months ended March 31, 2021 and 2020, respectively. 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.

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 10% and 11% for the three months ended March 31, 2021 and 2020, 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, 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. From time to time, third parties provide us referrals for which we pay a referral fee. We include revenues associated with these referrals as part of revenues from our direct sales organization. Referral fees paid to these third parties are generally 10% of the customer’s net new ACV. We defer referral fees paid as they are considered incremental selling costs associated with acquiring customer contracts and include the amortization of these referral fees in sales and marketing expense. 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 March 31, 2021. 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.

Results of Operations

Revenues

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Revenues:			
Subscription	$ 1,293	$ 995	30 %
Professional services and other	67	51	31 %
Total revenues	$ 1,360	$ 1,046	30 %
Percentage of revenues:			
Subscription	95%	95%	
Professional services and other	5%	5%	
Total	100%	100%	

Subscription revenues increased by $298 million for the three months ended March 31, 2021 compared to the same period in the prior year, driven by increased purchases by existing customers and an increase in customer count. Included in subscription revenues is $73 million and $66 million of revenues recognized upfront from the delivery of software associated with self-hosted offerings during the three months ended March 31, 2021 and 2020, respectively.

We expect subscription revenues for the year ending December 31, 2021 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 revenue compared to the year ended December 31, 2020. We continue to monitor the COVID-19 pandemic in 2021 and its impact on customer acquisition and renewal rates.

Our expectations for revenues, cost of revenues and operating expenses for the remainder of 2021 are based on foreign exchange rates as of March 31, 2021.

Subscription revenues consist of the following:

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Digital workflow products	$ 1,131	$ 868	30 %
ITOM products	162	127	28 %
Total subscription revenues	$ 1,293	$ 995	30 %

Our digital workflow products include the Now Platform, IT Service Management, IT Business Management, DevOps, 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, Connected Operations, Financial Services Operations, Telecommunications Service Management, Telecommunications Network Performance Management, App Engine and IntegrationHub, and are generally priced on a per user basis. Our ITOM products are generally priced on a per node (physical or virtual server) basis.

Professional services and other revenues increased by $16 million during the three months ended March 31, 2021 compared to the same period in the prior year 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, 2021 to increase in absolute dollars but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2020. 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 March 31,		
	2021	2020	% Change
	(dollars in millions)		
Cost of revenues:			
Subscription	$ 228	$ 160	43 %
Professional services and other	71	63	13 %
Total cost of revenues	$ 299	$ 223	34 %
Gross profit percentage:			
Subscription	82%	84%	
Professional services and other	(6%)	(23%)	
Total gross profit percentage	78%	79%	
Gross profit	$ 1,061	$ 823	

Cost of subscription revenues increased by $68 million for the three months ended March 31, 2021 compared to the same period in the prior year primarily due to increased headcount and increased costs to support the growth of our subscription offerings. Personnel-related costs including stock-based compensation and overhead expenses increased by $27 million. In addition, depreciation expense related to data center hardware, software and maintenance costs to support the expansion of our data center capacity including public cloud service costs increased by $35 million for the three months ended March 31, 2021 compared to the same period in the prior year.

We expect our cost of subscription revenues to increase in absolute dollars as we provide subscription services to more customers and increase usage within our customer instances. Our subscription gross profit percentage was 82% for the three months ended March 31, 2021 compared to 84% for the three months ended March 31, 2020. We expect our subscription gross profit percentage to slightly decrease for the year ending December 31, 2021 compared to the year ended December 31, 2020 primarily due to incremental costs for our customers in regulated markets to move to our public cloud offering 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 $8 million for the three months ended March 31, 2021 compared to the same period in the prior year, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation.

Our professional services and other gross loss percentage decreased to 6% for the three months ended March 31, 2021 from 23% for the three months ended March 31, 2020 primarily driven by the increased utilization of our internal professional services organization and the reduction in certain travel expenses. We expect our professional services and other gross loss percentage to decrease for the year ending December 31, 2021 compared to the year ended December 31, 2020 as we continue to stabilize our utilization of our internal professional services organization.

Sales and Marketing

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Sales and marketing	$ 524	$ 441	19 %
Percentage of revenues	39%	42%	

Sales and marketing expenses increased by $83 million for the three months ended March 31, 2021 compared to the same period in the prior year, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of $72 million. Amortization expenses associated with deferred commissions and third-party referral fees increased $18 million for the three months ended March 31, 2021 compared to the same period in the prior year, due to an increase in contracts with new customers, expansion and renewal contracts. Other sales and marketing program expenses, which include branding expenses and costs associated with purchasing advertising and market data and outside services, decreased by $4 million during the three months ended March 31, 2021 compared to the same period in the prior year.

Amid the ongoing regulatory restrictions imposed by governments worldwide in response to the COVID-19 pandemic, we continue to temporarily close most of our offices to ensure the well-being and safety of our global employees, office staff and communities, and encourage our employees to work remotely and limit travel. Further, we converted certain in-person events to digital events in the first quarter of 2021, which resulted in a decrease of $5 million for the three months ended March 31, 2021 compared to the same period in the prior year.

Despite the uncertainty around the continued impact of the COVID-19 pandemic and its duration, we expect sales and marketing expenses to increase in absolute dollars, but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2020, as we continue to expand our direct sales organization, increase our marketing activities, grow our international operations and continue to build brand awareness.

Research and Development

	Three Months Ended March 31,		
	2021	**2020**	**% Change**
	(dollars in millions)		
Research and development	$ 314	$ 227	38 %
Percentage of revenues	23%	22%	

Research and development expenses increased by $87 million for the three months ended March 31, 2021 compared to the same period in the prior year primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of $84 million. The remaining increase was primarily due to increases in outside service costs, hosting costs and data center related depreciation costs to support research and development activities.

We expect research and development expenses for the year ending December 31, 2021 to increase in absolute dollars but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2020 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 March 31,		
	2021	**2020**	**% Change**
	(dollars in millions)		
General and administrative	$ 126	$ 106	19 %
Percentage of revenues	9%	10%	

General and administrative expenses increased by $20 million for the three months ended March 31, 2021 compared to the same period in the prior year primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of $16 million. The remaining increase was primarily due to increase in acquisition-related expenses and outside services to support our administrative functions.

We expect general and administrative expenses to increase in absolute dollars for the year ending December 31, 2021 but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2020, as we continue to hire new employees.

Stock-based Compensation

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Cost of revenues:			
Subscription	$ 29	$ 22	32 %
Professional services and other	13	12	8 %
Operating expenses:			
Sales and marketing	93	70	33 %
Research and development	88	59	49 %
General and administrative	33	26	27 %
Total stock-based compensation	$ 256	$ 189	35 %
Percentage of revenues	19%	18%	

Stock-based compensation increased by $67 million for the three months ended March 31, 2021 compared to the same period 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 March 31, 2021, we expect stock-based compensation to continue to increase in absolute dollars for the year ending December 31, 2021 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, 2020, but we expect this 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 35% and 33% of total revenues for the three months ended March 31, 2021 and 2020, respectively.

Because we primarily transact in foreign currencies for sales outside of the United States, the general weakening of the U.S. Dollar relative to other major foreign currencies had a favorable impact on our revenues for the three months ended March 31, 2021. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three months ended March 31, 2021 at the exchange rates in effect for the three months ended March 31, 2020 rather than the actual exchange rates in effect during the period, our reported subscription revenues would have been $37 million lower for the period. The impact from the foreign currency movements from the three months ended March 31, 2020 to the three months ended March 31, 2021 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 weakening of the U.S. Dollar relative to other major foreign currencies had an unfavorable impact on our cost of revenues and sales and marketing expenses for the three months ended March 31, 2021. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three months ended March 31, 2021 at the exchange rates in effect for the three months ended March 31, 2020 rather than the actual exchange rates in effect during the period, our reported cost of revenues and sales and marketing expenses would have been $8 million and $10 million lower, respectively. The impact from the foreign currency movements from the three months ended March 31, 2020 to the three months ended March 31, 2021 was not material to research and development and general and administrative expenses.

Interest Expense

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Interest expense	$ (7)	$ (9)	(22 %)
Percentage of revenues	(1 %)	(1%)	

Interest expense decreased for the three months ended March 31, 2021 compared to the same period in the prior year, due to decrease in amortization expense of debt discount and issuance costs as a result of the 2022 Notes Repurchase offset by increase in debt discount, issuance cost and interest related to the 2030 Notes. For the year ending December 31, 2021, we expect to incur approximately $29 million related to the 2022 Notes and 2030 Notes.

Other Income, net

	Three Months Ended March 31,		
	2021	2020	% Change
	(dollars in millions)		
Interest income	$ 6	$ 14	(57 %)
Foreign currency exchange loss, net of derivative contracts	(3)	(7)	NM
Unrealized gain on non-marketable securities	8	—	NM
Other	(2)	1	NM
Other income, net	$ 9	$ 8	13 %
Percentage of revenues	1%	1%	

NM - Not meaningful.

Other income, net increased by $1 million for the three months ended March 31, 2021 compared to the same period in the prior year, primarily driven by $8 million unrealized gain on equity investments in privately-held companies offset by a decrease in interest income by $8 million compared to the same period in the prior year due to decline in interest rates for the three months ended March 31, 2021 compared to the same period in the prior year.

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 March 31,		
	2021	2020	% Change
	(dollars in millions)		
Income before income taxes	$ 99	$ 48	106 %
Provision for income taxes	17	—	NM
Effective tax rate	17%	—%	

NM - Not meaningful.

Our income tax provision was $17 million for the three months ended March 31, 2021. 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 not material for the three months ended March 31, 2020, as our foreign taxes were entirely offset by release of valuation allowance 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, 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.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, investments, and cash generated from operations. As of March 31, 2021, we had $3.5 billion in cash and cash equivalents and short-term investments, of which $528 million represented cash held by foreign subsidiaries and $411 million is denominated in currencies other than the U.S. Dollar. In addition, we had $1.3 billion in long-term investments that provide additional capital resources. We do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

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. 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 customary 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.

In May and June 2017, we issued the 2022 Notes with an aggregate principal amount of $782.5 million. In connection with the issuance of the 2022 Notes, we entered into the 2022 Note Hedge transactions and 2022 Warrants transactions with certain financial institutions. The price of our common stock was greater than or equal to 130% of the conversion price of the 2022 Notes for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the quarters ended June 30, 2018 through March 31, 2021, except for the quarter ended December 31, 2018. Therefore, our 2022 Notes became convertible at the holders' option beginning on July 1, 2018 and continue to be convertible through June 30, 2021, 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. The impact of the 2022 Notes on our liquidity will depend on the settlement method we elect. We currently intend to settle the principal amount of any converted 2022 Notes in cash. During the three months ended March 31, 2021, we paid cash to settle $34 million in principal of the 2022 Notes. Additionally, we repurchased $497 million in aggregate principal amount of the 2022 Notes (the "2022 Notes Repurchase") which was accounted for as a debt extinguishment. We used proceeds from the partial unwind of the 2022 Note Hedge of $1.1 billion for the 2022 Notes Repurchase.

Based on conversion requests received through the filing date, we expect to settle in cash an aggregate of approximately $30 million in principal amount of the 2022 Notes during the second quarter of 2021. We may receive additional conversion requests that require settlement in the second quarter of 2021 and future periods.

During the three months ended March 31, 2021 and year ended December 31, 2020, we issued 0.5 million and 2.3 million shares of our common stock upon partial unwind of the 2022 Warrants, respectively. We expect to issue additional shares of our common stock in the second half of 2022 upon the automatic exercise of the remaining portion of the 2022 Warrants. As the remaining portion of the 2022 Warrants will be net share settled, there will be no impact on our liquidity. The total number of shares of our common stock we will issue depends on the daily volume-weighted average stock prices over a 60 trading day period beginning on the first expiration date of the remaining portion of the 2022 Warrants, which will be September 1, 2022. Refer to Note 10 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and other risks detailed in the section "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on February 12, 2021. However, we anticipate our current cash, cash equivalents and investments balance and anticipated cash flows generated from operations based on our current business plan and revenue prospects will be sufficient to meet our liquidity needs, including the repayment of any early conversions of our 2022 Notes, debt service costs, expansion of data centers, lease obligations, expenditures related to the growth of our headcount and the acquisition of property and equipment, intangibles, and investments in office facilities, to accommodate our operations for at least the next 12 months. Whether these resources are adequate to meet our liquidity needs beyond that period will depend on our growth, operating results, cash utilized for acquisitions and/or debt retirements if any are consummated, and the capital expenditures required to meet possible increased demand for our services. If we require additional capital resources to grow our business or repay our 2022 Notes at any time in the future, we may seek to finance our operations from the current funds available or seek additional equity or debt financing.

	Three Months Ended March 31,	
	2021	2020
	(dollars in millions)	
Net cash provided by operating activities	$ 727	$ 492
Net cash used in investing activities	(437)	(385)
Net cash used in financing activities	(124)	(61)
Net increase in cash, cash equivalents and restricted cash	148	35

Operating Activities

Net cash provided by operating activities was $727 million for the three months ended March 31, 2021 compared to $492 million for the three months ended March 31, 2020. The net increase in operating cash flow was primarily due to increases in operating income and cash collections from customers.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2021 was $437 million compared to $385 million for the three months ended March 31, 2020. The increase in cash used in investing activities was mainly due to $130 million for business combinations, net of cash and restricted cash acquired and $24 million increase in capital expenditures related to infrastructure hardware equipment as well as offices to support our headcount growth partially offset by $103 million decrease in net purchases of investments.

Financing Activities

Net cash used in financing activities was $124 million for the three months ended March 31, 2021 compared to $61 million for the three months ended March 31, 2020. The increase was primarily due to additional $65 million in taxes paid related to net share settlement of equity awards and $26 million repayments of convertible senior notes offset by $28 million in proceeds from employee equity plans.

Critical Accounting Policies and Significant Judgments and Estimates

There have been no changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 12, 2021.

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, 2020, which was filed with the SEC on February 12, 2021, other than market risk that is created by the global market disruptions and uncertainties resulting from the COVID-19 pandemic. See the section “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on February 12, 2021 for further discussion of the possible impact to our business.

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 the end of the quarter covered by this Quarterly Report on Form 10-Q, that our disclosure controls and procedures were effective at the reasonable assurance level for this purpose.

Changes in Internal Control over Financial Reporting

Regulations under the Exchange Act require public companies, including our company, to evaluate any change in our "internal control over financial reporting" as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of any changes in 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 our most recently completed fiscal quarter. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that 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 a high degree of risk. You should consider carefully 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 12, 2021 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 for the year ended December 31, 2020, which was filed with the SEC on February 12, 2021, identified the risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and future prospects. Our business could be harmed by any of these risks. Our stock price could decline due to any of these risks, and you may lose all or part of your investment.

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

In February 2021, we entered into partial unwind agreements that reduced the aggregate number of 2022 Warrants to 1,004,872. In connection with the partial unwind of the 2022 Warrants, we delivered, in an exchange pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended, an aggregate of 536,023 shares of our common stock to the holders of the 2022 Warrants, which were Citibank, N.A., Goldman Sachs & Co. LLC, JPMorgan Chase Bank, National Association, London Branch, and Morgan Stanley & Co. LLC. We did not receive any proceeds from the partial unwind agreements in connection with our 2022 Warrants, nor were they subject to underwriting discounts or commissions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document	Form	File No.	Exhibit	Filing Date	Filed Herewith
		Incorporated by Reference				
3.1	Restated Certificate of Incorporation, as amended	8-K	001-35580	3.1	6/19/2020	
3.2	Restated Bylaws	8-K	001-35580	3.2	6/19/2020	
10.1*	Element AI Inc. 2020 Restricted Share Unit Plan	S-8	333-253013	99.1	2/12/2021	
10.2*	Form of Restricted Share Unit Award Agreement under Element AI Inc. 2020 Restricted Share Unit Plan	S-8	333-253013	99.2	2/12/2021	
10.3	Form of Warrant Termination Agreement					X
10.4*	Separation Agreement dated February 24, 2021 by and between the Registrant and Gabrielle Toledano					X
10.5*	Form of Amendment to Employment Agreement between the Registrant and each of Gina Mastantuono, Chirantan J. Desai, Kevin Haverty and Russell S. Elmer	8-K	001-35580	10.1	4/16/2021	
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

* Indicates a management contract, compensatory plan or arrangement.

** 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: April 28, 2021	By:	/s/ William R. McDermott
		William R. McDermott *President and Chief Executive Officer* (Principal Executive Officer)
Date: April 28, 2021	By:	/s/ Gina Mastantuono
		Gina Mastantuono *Chief Financial Officer* (Principal Financial Officer)
Date: April 28, 2021	By:	/s/ Fay Sien Goon
		Fay Sien Goon *Chief Accounting Officer* (Principal Accounting Officer)

WARRANT TERMINATION AGREEMENT
dated as of [ ], 2021
dated as of [ ], 2021
Between SERVICENOW, INC. and [DEALER NAME]

THIS WARRANT TERMINATION AGREEMENT (this “**Agreement**”) with respect to the Warrants Confirmations (as defined below) is made as of [ ], 2021, between ServiceNow, Inc. (“**Company**”) and [DEALER NAME] (“**Dealer**”).

WHEREAS, Company issued $782,500,000 principal amount of 0% Convertible Senior Notes due 2022 (the “**Convertible Notes**”) pursuant to an Indenture dated as of May 30, 2017 between Company and Wells Fargo Bank, National Association, as trustee;

WHEREAS, concurrently with the pricing of the Convertible Notes, Dealer and Company entered into a Base Warrants Transaction (the “**Base Warrants Transaction**”) pursuant to an ISDA confirmation dated as of May 23, 2017, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Dealer purchased from Company [ ] warrants (as amended, modified, terminated or unwound from time to time, the “**Base Warrants Confirmation**”);

WHEREAS, concurrently with the exercise of the over-allotment option by the initial purchasers of the Convertible Notes, Dealer and Company entered into an Additional Warrants Transaction (the “**Additional Warrants Transaction**” and, together with the Base Warrants Transaction, the “**Warrants Transactions**”) pursuant to an ISDA confirmation dated as of June 19, 2017, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Dealer purchased from Company [ ] warrants (as amended, modified, terminated or unwound from time to time, the “**Additional Warrants Confirmation**” and, together with the Base Warrants Confirmation, the “**Warrants Confirmations**”);

WHEREAS, Company and Dealer agreed on August 6, 2020 to terminate the Additional Warrants Transaction in whole and partially terminate the Base Warrants Transaction;

[WHEREAS, Company and Dealer agreed on [ ] to further partially terminate the Base Warrants Transaction;]

WHEREAS, the Number of Warrants under the Base Warrants Transaction as of the date hereof is [ ]; and

WHEREAS, Company has requested [partial][full] termination of [ ][the remaining Number of] Warrants under the Base Warrants Transaction;

NOW, THEREFORE, in consideration of their mutual covenants herein contained, the parties hereto, intending to be legally bound, hereby mutually covenant and agree as follows:

1. <u>Defined Terms</u>. Any capitalized term not otherwise defined herein shall have the meaning set forth for such term in the Base Warrants Confirmation.

2. <u>Termination</u>. Notwithstanding anything to the contrary in the Base Warrants Confirmation, Company and Dealer agree that, effective on the date hereof, the Number of Warrants under the Base Warrants Transaction shall be reduced to [ ] and in connection therewith Company shall be required to deliver to Dealer a number of Shares equal to the Share Settlement Amount on the Delivery Date pursuant to Sections 3 and 4 below.

3. Procedures for Hedge Unwind. On each Hedge Unwind Date (as defined below), Dealer (or an affiliate of Dealer), for the account of Dealer, shall unwind a portion of its hedge of the Warrants underlying the Warrants Transactions being terminated hereunder. A "**Hedge Unwind Date**" means each Scheduled Trading Day occurring in the Hedge Unwind Period; *provided*, *however*, that if any such date is a Disrupted Day in whole, such date shall not constitute a Hedge Unwind Date, and an additional Hedge Unwind Date shall occur on the Scheduled Trading Day after the date that would otherwise be the final Hedge Unwind Date. "**Hedge Unwind Period**" means the period of two consecutive Scheduled Trading Days beginning on, and including, [ ], 2021.

4. Payments and Deliveries. On the [first] Scheduled Trading Day following the last day of the Hedge Unwind Period or, if such day is not a Clearance System Business Day, on the next Clearance System Business Day immediately following such day (the "**Delivery Date**"), Company shall deliver to Dealer, to the account specified in Section 7 hereof, the Share Settlement Amount. The "**Share Settlement Amount**" shall mean a number of Shares determined by Dealer pursuant to the relevant table set forth in Schedule A attached hereto (using linear interpolation or linear extrapolation by Dealer, as applicable, to determine any Average 10b-18 VWAP not specifically appearing in Schedule A). Dealer shall notify Company of the applicable Share Settlement Amount as soon as reasonably practicable after 5:00 pm (New York City time) on the last Scheduled Trading Day of the Hedge Unwind Period. "**Average 10b-18 VWAP**" means the arithmetic average of the Rule 10b-18 VWAP Prices for each Hedge Unwind Date during the Hedge Unwind Period. "**Rule 10b-18 VWAP Price**" for any Scheduled Trading Day means the Rule 10b-18 volume-weighted average price at which the Shares trade as reported in the composite transactions for United States exchanges and quotation systems, during the regular trading session for the Exchange on such Scheduled Trading Day, as published by Bloomberg at 4:15 p.m. New York City time (or 15 minutes following the end of any extension of the regular trading session) on such Scheduled Trading Day, on Bloomberg Page NOW <equity> AQR SEC (or any successor thereto), absent manifest error or unavailability of such page or a successor thereto, in which case Dealer shall determine the Rule 10b-18 VWAP Price for such Scheduled Trading Day using a volume-weighted method (in which case, for purposes of calculating the Rule 10b-18 VWAP Price for such Scheduled Trading Day, Dealer will include only those trades that are reported during the period of time during which Company could purchase its own shares under Rule 10b-18(b)(2) and are effected pursuant to the conditions of Rule 10b-18(b)(3), each under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). Notwithstanding the foregoing, if (i) any Scheduled Trading Day in the Hedge Unwind Period is a Disrupted Day (in whole or in part) or (ii) Dealer determines in its commercially reasonable judgment that on any Scheduled Trading Day during the Hedge Unwind Period that an extension of the Hedge Unwind Period is reasonably necessary or appropriate to preserve Dealer's hedge unwind activity hereunder in light of existing liquidity conditions or to enable Dealer to effect purchase and/or sales of Shares in connection with its hedge unwind activity hereunder in a manner that would be in compliance with applicable legal, regulatory or self-regulatory requirements, or with related policies and procedures applicable to Dealer, then the Rule 10b-18 VWAP Price for such Scheduled Trading Day(s) shall be the volume-weighted average price per Share on such Scheduled Trading Day on the Exchange for such time period, as determined by Dealer based on such sources as it deems appropriate using a volume-weighted methodology, for the portion of such Scheduled Trading Day for which Dealer determines there is no Market Disruption Event with respect to the Shares (if any) and the number of Hedge Unwind Dates and the Share Settlement Amount shall be adjusted by Dealer in its good faith, commercially reasonable discretion to account for such disruption and/or extension.

5. Representations and Warranties of Company. Company represents and warrants to Dealer (and agrees with Dealer in the case of Sections 5(g)(ii) and (h)) on the date hereof that:

   a. it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

b. such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

c. all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

d. its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

e. each of it and its affiliates is not in possession of any material nonpublic information regarding Company or the Shares;

f. it is not entering into this Agreement to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares) or otherwise in violation of the Exchange Act;

g. (i) it is not on the date hereof, engaged in a distribution, as such term is used in Regulation M under the Exchange Act ("**Regulation M**"), of the Shares or any securities deemed "reference securities" (as defined in Regulation M) with respect to the Shares and (ii) it shall not engage in any such distribution during the period commencing on the date hereof and ending on the second Exchange Business Day immediately following the last day of the Hedge Unwind Period with respect to the Shares or such reference securities; and

h. on each Scheduled Trading Day during the Hedge Unwind Period, neither Company nor any "affiliated purchaser" (as defined in Rule 10b-18 of the Exchange Act) shall directly or indirectly (including, without limitation, by means of any cash-settled or other derivative instrument) purchase, offer to purchase, place any bid or limit order that would effect a purchase of, or commence any tender offer relating to, any Shares (or an equivalent interest, including a unit of beneficial interest in a trust or limited partnership or a depository share) or any security convertible into or exchangeable or exercisable for Shares (but excluding convertible debt); *provided* that the foregoing shall not (i) limit Company's ability, pursuant to its employee incentive plans, to re-acquire Shares in connection with the related equity transactions, (ii) limit Company's ability to withhold shares to cover tax liabilities associated with such equity transactions or (iii) limit Company's ability to grant stock, restricted stock units and options to "affiliated purchasers" (as defined in Rule 10b-18) or the ability of such affiliated purchasers to acquire such stock, restricted stock units or options, in connection with Company's compensation policies for directors, officers and employees.

6. Representations and Warranties of Dealer. Dealer represents and warrants to Company on the date hereof that:

a. it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

b. such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

c. all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

d. its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

7. Account for Delivery of Shares to Dealer: [Dealer to provide]

8. Governing Law. This Agreement and any dispute arising hereunder shall be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

9. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all of the signatures thereto and hereto were upon the same instrument.

10. No Reliance, etc. Company confirms that it has relied on the advice of its own counsel and other advisors (to the extent it deems appropriate) with respect to any legal, tax, accounting, or regulatory consequences of this Agreement, that it has not relied on Dealer or its affiliates in any respect in connection therewith, and that it will not hold Dealer or its affiliates accountable for any such consequences.

11. Designation by Dealer. Notwithstanding any other provision in this Agreement to the contrary requiring or allowing Dealer to purchase, sell, receive or deliver any Shares or other securities to or from Company, Dealer may designate any of its affiliates to purchase, sell, receive or deliver such shares or other securities and otherwise to perform Dealer obligations in respect of the transactions contemplated by this Agreement and any such designee may assume such obligations. Dealer shall be discharged of its obligations to Company to the extent of any such performance.

12. No Other Changes. Except as expressly set forth herein, all of the terms and conditions of the Base Warrants Confirmation shall remain in full force and effect and are hereby confirmed in all respects.

13. Effectiveness. This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

14. [Communications with Employees of J.P. Morgan Securities LLC. If Counterparty interacts with any employee of J.P. Morgan Securities LLC with respect to the Transaction, Counterparty is hereby notified that such employee will act solely as an authorized representative of JPMorgan Chase Bank, N.A. (and not as a representative of J.P. Morgan Securities LLC) in connection with the Transaction.]

15. [*U.S. Resolution Stay Protocol.* The parties acknowledge and agree that (i) to the extent that prior to the date hereof both parties have adhered to the 2018 ISDA U.S. Resolution Stay Protocol (the "Protocol"), the terms of the Protocol are incorporated into and form a part of the Agreement, and for such purposes the Agreement shall be deemed a Protocol Covered Agreement, the J.P. Morgan entity that is a party to the Agreement ("**J.P. Morgan**") shall be deemed a Regulated Entity and the other entity that is a party to the Agreement ("**Counterparty**") shall be deemed an Adhering Party; (ii) to the extent that prior to the date hereof the parties have executed a separate agreement the effect of which is to amend the qualified financial contracts between them to conform with the requirements of the QFC Stay Rules (the "**Bilateral Agreement**"), the terms of the Bilateral Agreement are incorporated into and form a part of the Agreement, and for such purposes the Agreement shall be deemed a Covered Agreement, J.P. Morgan shall be deemed a Covered Entity and Counterparty shall be deemed a Counterparty Entity; or (iii) if clause (i) and clause (ii) do not apply, the terms of Section 1 and Section 2 and the related defined terms (together, the "**Bilateral Terms**") of the form of bilateral template entitled "Full-Length Omnibus (for use between U.S. G-SIBs and Corporate Groups)" published by ISDA on November 2, 2018 (currently available on the 2018 ISDA U.S. Resolution Stay Protocol page at www.isda.org and, a copy of which is available upon request), the effect of which is to amend the qualified financial contracts between the parties thereto to conform with the requirements of the QFC Stay Rules, are hereby incorporated into and form a part of the Agreement, and for such purposes the Agreement shall be deemed a "**Covered Agreement,**" J.P. Morgan shall be deemed a "Covered Entity" and Counterparty shall be deemed a "**Counterparty Entity**." In the event that, after the date of the Agreement, both parties hereto become adhering parties to the Protocol, the terms of the Protocol will replace the terms of this paragraph. In the event of any inconsistencies between the Agreement and the terms of the Protocol, the Bilateral Agreement or the Bilateral Terms (each, the "**QFC Stay Terms**"), as applicable, the QFC Stay Terms will govern. Terms used in this paragraph without definition shall have the meanings assigned to them under the QFC Stay Rules. For purposes of this paragraph, references to "**the Agreement**" include any related credit enhancements entered into between the parties or provided by one to the other. In addition, the parties agree that the terms of this paragraph shall be incorporated into any related covered affiliate credit enhancements, with all references to J.P. Morgan replaced by references to the covered affiliate support provider. "**QFC Stay Rules**" means the regulations codified at 12 C.F.R. 252.2, 252.81–8, 12 C.F.R. 382.1-7 and 12 C.F.R. 47.1-8, which, subject to limited exceptions, require an express recognition of the stay-and-transfer powers of the FDIC under the Federal Deposit Insurance Act and the Orderly Liquidation Authority under Title II of the Dodd Frank Wall Street Reform and Consumer Protection Act and the override of default rights related directly or indirectly to the entry of an affiliate into certain insolvency proceedings and any restrictions on the transfer of any covered affiliate credit enhancements.]

[*U.S. QFC Mandatory Contractual Requirements*.

a. **Limitation on Exercise of Certain Default Rights Related to a Dealer Affiliate's Entry Into Insolvency Proceedings**. Notwithstanding anything to the contrary in this Confirmation or any other agreement, the parties hereto expressly acknowledge and agree that subject to Section 14(b), Counterparty shall not be permitted to exercise any Default Right against Dealer with respect to this Confirmation or any other Relevant Agreement that is related, directly or indirectly, to a Dealer Affiliate becoming subject to an Insolvency Proceeding.

b. **General Creditor Protections**. Nothing in Section 14(a) shall restrict the exercise by Counterparty of any Default Right against Dealer with respect to this Confirmation or any other Relevant Agreement that arises as a result of:

   i. Dealer becoming subject to an Insolvency Proceeding; or

   ii. Dealer not satisfying a payment or delivery obligation pursuant to (x) this Confirmation or any other Relevant Agreement, or (y) another contract between Dealer and Counterparty that gives rise to a Default Right under this Confirmation or any other Relevant Agreement.

c. **Burden of Proof**. After a Dealer Affiliate has become subject to an Insolvency Proceeding, if Counterparty seeks to exercise any Default Right with respect to this Confirmation or any other Relevant Agreement, Counterparty shall have the burden of proof, by clear and convincing evidence, that the exercise of such Default Right is permitted hereunder or thereunder.

d. General Conditions

i. Effective Date. The provisions set forth in this Section 14 will come into effect on the later of the Applicable Compliance Date and the date of this Confirmation.

ii. Prior Adherence to the U.S. Protocol. If Dealer and Counterparty have adhered to the ISDA U.S. Protocol prior to the date of this Confirmation, the terms of the ISDA U.S. Protocol shall be incorporated into and form a part of this Confirmation and shall replace the terms of this Section 14. For purposes of incorporating the ISDA U.S. Protocol, Dealer shall be deemed to be a Regulated Entity, Counterparty shall be deemed to be an Adhering Party and the Agreement shall be deemed to be a Protocol Covered Agreement.

iii. Subsequent Adherence to the U.S. Protocol. If, after the date of this Confirmation, both Dealer and Counterparty shall have become adhering parties to the ISDA U.S. Protocol, the terms of the ISDA U.S. Protocol will supersede and replace this Section 14.

e. **Definitions**. For the purposes of this Section 14, the following definitions apply:

"Applicable Compliance Date" with respect to this Confirmation shall be determined as follows: (a) if Counterparty is an entity subject to the requirements of the QFC Stay Rules, January 1, 2019, (b) if Counterparty is a Financial Counterparty (other than a Small Financial Institution) that is not an entity subject to the requirements of the QFC Stay Rules, July 1, 2019 and (c) if Counterparty is not described in clause (a) or (b), January 1, 2020.

"BHC Affiliate" has the same meaning as the term "affiliate" as defined in, and shall be interpreted in accordance with, 12 U.S.C. 1813(w) and 12 U.S.C. 1841(k).

"Credit Enhancement" means, with respect to this Confirmation or any other Relevant Agreement, any credit enhancement or other credit support arrangement in support of the obligations of Dealer or Counterparty hereunder or thereunder or with respect hereto or thereto, including any guarantee or collateral arrangement (including any pledge, charge, mortgage or other security interest in collateral or title transfer arrangement), trust or similar arrangement, letter of credit, transfer of margin or any similar arrangement.

"Dealer Affiliate" means, with respect to Dealer, a BHC Affiliate of that party.

"Default Right" means, with respect to this Confirmation (including the Transaction) or any other Relevant Agreement, any:

i. right of a party, whether contractual or otherwise (including, without limitation, rights incorporated by reference to any other contract, agreement, or document, and rights afforded by statute, civil code, regulation, and common law), to liquidate, terminate, cancel, rescind, or accelerate such agreement or transactions thereunder, set off or net amounts owing in respect thereto (except rights related to same-day payment netting), exercise remedies in respect of collateral or other credit support or property related thereto (including the purchase and sale of property), demand payment or delivery thereunder or in respect thereof (other than a right or operation of a contractual provision arising solely from a change in the value of collateral or margin or a change in the amount of an economic exposure), suspend, delay, or defer payment or performance thereunder, or modify the obligations of a party thereunder, or any similar rights; and

ii. right or contractual provision that alters the amount of collateral or margin that must be provided with respect to an exposure thereunder, including by altering any initial amount, threshold amount, variation margin, minimum transfer amount, the margin value of collateral, or any similar amount, that entitles a party to demand the return of any collateral or margin transferred by it to the other party or a custodian or that modifies a transferee's right to reuse collateral or margin (if such right previously existed), or any similar rights, in each case, other than a right or operation of a contractual provision arising solely from a change in the value of collateral or margin or a change in the amount of an economic exposure; but

iii. solely with respect to Section 14, does not include any right under a contract that allows a party to terminate the contract on demand or at its option at a specified time, or from time to time, without the need to show cause.

"Financial Counterparty" has the meaning given to such term in, and shall be interpreted in accordance with, 12 C.F.R. 252.81, 12 C.F.R. 382.1 and 12 C.F.R. 47.2.

"Insolvency Proceeding" means a receivership, insolvency, liquidation, resolution, or similar proceeding.

"ISDA U.S. Protocol" means the ISDA 2018 U.S. Resolution Stay Protocol, as published by ISDA on July 31, 2018.

"QFC Stay Rules" means the regulations codified at 12 C.F.R. 252.81–8 (the "Federal Reserve Rule"), 12 C.F.R. 382.1-7 (the "FDIC Rule") and 12 C.F.R. 47.1-8 (the "OCC Rule"), respectively. All references herein to the specific provisions of the Federal Reserve Rule, the FDIC Rule and the OCC Rule shall be construed, with respect to Dealer, to the particular QFC Stay Rule(s) applicable to it.

"Relevant Agreement" means this Confirmation (including the Transaction) and any Credit Enhancement relating hereto or thereto.

"Small Financial Institution" has the meaning given to such term in, and shall be interpreted in accordance with, 12 C.F.R. 252.81, 12 C.F.R. 382.1 and 12 C.F.R. 47.2.]

[*U.S. Resolution Stay Provisions*.

i. Recognition of the U.S. Special Resolution Regimes.

A. In the event that Goldman Sachs & Co. LLC ("**GS&Co.**") becomes subject to a proceeding under (i) the Federal Deposit Insurance Act and the regulations promulgated thereunder or (ii) Title II of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder (a "**U.S. Special Resolution Regime**") the transfer from GS&Co. of this Confirmation, and any interest and obligation in or under, and any property securing, this Confirmation, will be effective to the same extent as the transfer would be effective under the U.S. Special Resolution Regime if this Confirmation, and any interest and obligation in or under, and any property securing, this Confirmation were governed by the laws of the United States or a state of the United States.

B. In the event that GS&Co. or an Affiliate becomes subject to a proceeding under a U.S. Special Resolution Regime, any Default Rights (as defined in 12 C.F.R. §§ 252.81, 47.2 or 382.1, as applicable ("**Default Right**")) under this Confirmation that may be exercised against GS&Co. are permitted to be exercised to no greater extent than such Default Rights could be exercised under the U.S. Special Resolution Regime if this Confirmation were governed by the laws of the United States or a state of the United States.

ii. Limitation on Exercise of Certain Default Rights Related to an Affiliate's Entry Into Insolvency Proceedings. Notwithstanding anything to the contrary in this Confirmation, GS&Co. and Counterparty expressly acknowledge and agree that:

A. Counterparty shall not be permitted to exercise any Default Right with respect to this Confirmation or any Affiliate Credit Enhancement that is related, directly or indirectly, to an Affiliate of GS&Co. becoming subject to receivership, insolvency, liquidation, resolution, or similar proceeding (an "**Insolvency Proceeding**"), except to the extent that the exercise of such Default Right would be permitted under the provisions of 12 C.F.R. 252.84, 12 C.F.R. 47.5 or 12 C.F.R. 382.4, as applicable; and

B. Nothing in this Confirmation shall prohibit the transfer of any Affiliate Credit Enhancement, any interest or obligation in or under such Affiliate Credit Enhancement, or any property securing such Affiliate Credit Enhancement, to a transferee upon or following an Affiliate of GS&Co. becoming subject to an Insolvency Proceeding, unless the transfer would result in the Counterparty being the beneficiary of such Affiliate Credit Enhancement in violation of any law applicable to the Counterparty.

iii. U.S. Protocol. If Counterparty has previously adhered to, or subsequently adheres to, the ISDA 2018 U.S. Resolution Stay Protocol as published by the International Swaps and Derivatives Association, Inc. as of July 31, 2018 (the "**ISDA U.S. Protocol**"), the terms of such protocol shall be incorporated into and form a part of this Confirmation and the terms of the ISDA U.S. Protocol shall supersede and replace the terms of this Section 14. For purposes of incorporating the ISDA U.S. Protocol, GS&Co. shall be deemed to be a Regulated Entity, Counterparty shall be deemed to be an Adhering Party, and this Confirmation shall be deemed to be a Protocol Covered Agreement. Capitalized terms used but not defined in this paragraph shall have the meanings given to them in the ISDA U.S. Protocol.

iv. Preexisting In-Scope Agreements. GS&Co. and Counterparty agree that to the extent there are any outstanding "in-scope QFCs," as defined in 12 C.F.R. § 252.82(d), that are not excluded under 12 C.F.R. § 252.88, between GS&Co. and Counterparty that do not otherwise comply with the requirements of 12 C.F.R. § 252.2, 252.81–8 (each such agreement, a "**Preexisting In-Scope Agreement**"), then each such Preexisting In-Scope Agreement is hereby amended to include the foregoing provisions in this Section 14, with references to "this Confirmation" being understood to be references to the applicable Preexisting In-Scope Agreement.

For the purposes of this Section 14, "**Affiliate**" is defined in, and shall be interpreted in accordance with, 12 U.S.C. § 1841(k), and "**Credit Enhancement**" means any credit enhancement or credit support arrangement in support of the obligations of GS&Co. under or with respect to this Confirmation, including any guarantee, collateral arrangement (including any pledge, charge, mortgage or other security interest in collateral or title transfer arrangement), trust or similar arrangement, letter of credit, transfer of margin or any similar arrangement.]

[*<u>QFC Stay Rules</u>*. The parties agree that (i) to the extent that prior to the date hereof both parties have adhered to the 2018 ISDA U.S. Resolution Stay Protocol (the "**Protocol**"), the terms of the Protocol are incorporated into and form a part of this Confirmation, and for such purposes this Confirmation shall be deemed a Protocol Covered Agreement and each party shall be deemed to have the same status as Regulated Entity and/or Adhering Party as applicable to it under the Protocol; (ii) to the extent that prior to the date hereof the parties have executed a separate agreement the effect of which is to amend the qualified financial contracts between them to conform with the requirements of the QFC Stay Rules (the "**Bilateral Agreement**"), the terms of the Bilateral Agreement are incorporated into and form a part of this Confirmation and each party shall be deemed to have the status of "Covered Entity" or "Counterparty Entity" (or other similar term) as applicable to it under the Bilateral Agreement; or (iii) if clause (i) and clause (ii) do not apply, the terms of Section 1 and Section 2 and the related defined terms (together, the "**Bilateral Terms**") of the form of bilateral template entitled "Full-Length Omnibus (for use between U.S. G-SIBs and Corporate Groups)" published by ISDA on November 2, 2018 (currently available on the 2018 ISDA U.S. Resolution Stay Protocol page at www.isda.org and a copy of which is available upon request), the effect of which is to amend the qualified financial contracts between the parties thereto to conform with the requirements of the QFC Stay Rules, are hereby incorporated into and form a part of this Confirmation, and for such purposes this Confirmation shall be deemed a "Covered Agreement," Dealer shall be deemed a "Covered Entity" and Counterparty shall be deemed a "Counterparty Entity." In the event that, after the date of this Confirmation, both parties hereto become adhering parties to the Protocol, the terms of the Protocol will replace the terms of this paragraph. In the event of any inconsistencies between this Confirmation and the terms of the Protocol, the Bilateral Agreement or the Bilateral Terms (each, the "**QFC Stay Terms**"), as applicable, the QFC Stay Terms will govern. Terms used in this paragraph without definition shall have the meanings assigned to them under the QFC Stay Rules. For purposes of this paragraph, references to "this Confirmation" include any related credit enhancements entered into between the parties or provided by one to the other. "**QFC Stay Rules**" means the regulations codified at 12 C.F.R. 252.2, 252.81–8, 12 C.F.R. 382.1-7 and 12 C.F.R. 47.1-8, which, subject to limited exceptions, require an express recognition of the stay-and-transfer powers of the FDIC under the Federal Deposit Insurance Act and the Orderly Liquidation Authority under Title II of the Dodd Frank Wall Street Reform and Consumer Protection Act and the override of default rights related directly or indirectly to the entry of an affiliate into certain insolvency proceedings and any restrictions on the transfer of any covered affiliate credit enhancements.]

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

[DEALER]

By:______________
Name:
Title:

SERVICENOW, INC.

By:_______________

Name:

Title:

Schedule A

The Share Settlement Amount shall be determined by Dealer pursuant to the table below.

Average 10b-18 VWAP	**Share Settlement Amount**
$[___]	[____]
$[___]	[____]
$[___]	[____]
$[___]	[____]
$[___]	[____]
$[___]	[____]

Dealer may, in good faith and in a commercially reasonable manner, adjust the tables above upon the occurrence of any event or condition that would have allowed Dealer to adjust the terms of the Warrants Transactions under the Warrants Confirmations.

EXHIBIT 10.4

February 24, 2021

Gabrielle Toledano

Re: Separation Agreement

Dear Gaby:

You have been employed by ServiceNow, Inc. (the "Company") pursuant to the terms of an Employment Agreement dated October 21, 2020 (the "Employment Agreement"). You and the Company have mutually agreed to terminate the Employment Agreement pursuant to the terms and conditions set forth in this separation agreement (the "Agreement").

1. **SEPARATION DATE**. Your last day of work with the Company will be February 22, 2021. Your employment termination date will be March 5, 2021 (the "Separation Date"). On the Separation Date, the Company will pay you all Accrued Compensation (as defined in the Employment Agreement) earned through the Separation Date, subject to standard payroll deductions and withholdings. You are entitled to these payments regardless of whether or not you sign this Agreement.

2. **SEVERANCE BENEFITS**. In full satisfaction of the obligations to provide you severance benefits under the terms of the Employment Agreement, if you sign this Agreement and allow the releases set forth herein to become effective on the Effective Date (as defined in paragraph 13(c) below), then the Company will provide you with the following severance benefits:

    a. **Severance Pay**. The Company will pay you Nine Hundred Fifty Two Thousand, Two Hundred Fifty Dollars ($952,250), which is the equivalent of: (i) twelve months base salary [using an annual salary rate of $515,000 per year]; plus (ii) one hundred percent of your target bonus, presuming the Company met performance metrics at 100 percent; plus (iii) Fifty-One Thousand Dollars ($51,000), which is the equivalent of the cost of your COBRA premiums (grossed up) for a period of twelve months. This amount will be subject to standard payroll deductions and withholdings ("Severance Pay"). Your Severance Pay will be paid in a lump sum on the first regular payday no earlier than one week after the Effective Date (as defined in paragraph 13(c) below) of this Agreement. In addition, the Company will make no effort to recover any portion of the Sign-On Bonus Advance

    b. **Health Care Continuation Coverage**.

        i. **COBRA**. To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's current group health insurance policies, you will be eligible to continue your group health insurance benefits at your own expense. Later, you may be able to convert to an individual policy through the provider of the Company's health insurance, if you wish.

3. **EQUITY**. You were granted restricted stock units ("**RSUs**") and performance restricted stock units ("**PRSUs**"), pursuant to the Company's 2012 Equity Incentive Plan (the "**Plan**") and the Company's standard form of RSU agreement (the "**RSU Agreements**") and PRSU agreements (the "**PRSU Agreements**"). Under the terms of the Plan and the RSU Agreements and PRSU Agreements, your RSUs and PRSUs will cease to vest, and all shares of Common Stock underlying your RSUs and PRSUs shall be cancelled, in each case as of the Separation Date.

4. **OTHER COMPENSATION OR BENEFITS**. You acknowledge that, except as expressly provided in this Agreement, you will not receive any additional compensation, severance or benefits after the Separation Date.

5. **EXPENSE REIMBURSEMENTS**. You agree that, within ten (10) days after the Separation Date, you will submit your final documented expense reimbursement statement reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement. The Company will reimburse you for these expenses pursuant to its regular business practice.

6. **RETURN OF COMPANY PROPERTY**. By no later than the close of business on the Separation Date, you shall return to the Company all Company documents (and all copies thereof) and other Company property in your possession or control. You agree that you will make a diligent search to locate any such documents, property and information within the timeframe referenced above. In addition, if you have used any personally owned computer, server, or e-mail system to receive, store, review, prepare or transmit any confidential or proprietary data, materials or information of the Company, then within five (5) business days after the Separation Date, you must provide the Company with a computer-useable copy of such information and then permanently delete and expunge such confidential or proprietary information from those systems without retaining any reproductions (in whole or in part); and you agree to provide the Company access to your system, as requested, to verify that the necessary copying and deletion is done. **Your timely compliance with the provisions of this paragraph is a precondition to your receipt of the severance benefits provided hereunder.**

7. **PROPRIETARY INFORMATION OBLIGATIONS**. Both during and after your employment you acknowledge your continuing obligations under your Proprietary Information and Inventions Agreement, including your obligations not to use or disclose any confidential or proprietary information of the Company. A copy of your Proprietary Information and Inventions Agreement is attached hereto as **Exhibit A.**

8. **CONFIDENTIALITY**. The provisions of this Agreement will be held in strictest confidence by you and the Company and will not be publicized or disclosed in any manner whatsoever; provided, however, that: (a) you may disclose this Agreement to your immediate family; (b) the parties may disclose this Agreement in confidence to their respective attorneys, accountants, auditors, tax preparers, and financial advisors; (c) the Company may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements; and (d) the parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as otherwise required by law. In particular, and without limitation, you agree not to disclose the terms of this Agreement to any current or former Company employee.

9. **MUTUAL NONDISPARAGEMENT**. You and the Company each agree not to disparage each other, or the Company's officers, directors, employees, shareholders, parents, subsidiaries, affiliates, and agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation; provided that each may respond accurately and fully to any question, inquiry or request for information when required by legal process. In addition, nothing in this provision or this Agreement is intended to prohibit or restrain you in any manner from making disclosures that are protected under the whistleblower provisions of federal or state law or regulation.

10. **NO VOLUNTARY ADVERSE ACTION**. You agree that you will not voluntarily (except in response to legal compulsion) assist any person in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents.

11. **COOPERATION**. You agree to cooperate fully with the Company in connection with its actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters arising from events, acts, or failures to act that occurred during the period of your employment by the Company. Such cooperation includes, without limitation, making yourself available to the Company upon reasonable notice, without subpoena, to provide complete, truthful and accurate information in witness interviews, depositions, and trial testimony. The Company will reimburse you for reasonable out-of-pocket expenses you incur in connection with any such cooperation (excluding foregone wages) and will make reasonable efforts to accommodate your scheduling needs.

12. **NO ADMISSIONS.** You understand and agree that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by the Company to you or to any other person, and that the Company makes no such admission.

13. **RELEASE OF CLAIMS**.

a. **General Release**. In exchange for the consideration provided to you under this Agreement to which you would not otherwise be entitled, you hereby generally and completely release the Company, and its affiliated, related, parent and subsidiary entities, and its and their current and former directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, insurers, affiliates, and assigns (collectively, the "**Released Parties**") from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to or on the date you sign this Agreement (collectively, the "**Released Claims**").

b. **Scope of Release**. The Released Claims include, but are not limited to: (i) all claims arising out of or in any way related to your employment with the Company, or the termination of that employment; (ii) all claims related to your compensation or benefits from the Company, including salary, bonuses, commissions, vacation, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity, or profits interests in the Company; (iii) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (iv) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (v) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) (the "**ADEA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

c. **ADEA Waiver**. You acknowledge that you are knowingly and voluntarily waiving and releasing any rights you may have under the ADEA (the "**ADEA Waiver**"), and that the consideration given for the ADEA Waiver is in addition to anything of value to which you are already entitled. You further acknowledge that you have been advised, as required by the ADEA, that: (i) your ADEA Waiver does not apply to any rights or claims that may arise after the date that you sign this Agreement; (ii) you should consult with an attorney prior to signing this Agreement (although you may choose voluntarily not to do so); (iii) you have twenty-one (21) days to consider this Agreement (although you may choose voluntarily to sign it earlier); (iv) you have seven (7) days following the date you sign this Agreement to revoke the ADEA Waiver (by providing written notice of your revocation to Russ Elmer, General Counsel); and (v) this Agreement will not be effective until the date upon which the revocation period has expired, which will be the eighth day after the date that this Agreement is signed by you provided that you do not revoke it (the "**Effective Date**").

d. **Section 1542 Waiver**. YOU UNDERSTAND THAT THIS AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. In giving the release herein, which includes claims which may be unknown to you at present, you acknowledge that you have read and understand Section 1542 of the California Civil Code, which reads as follows:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release, and that if known by him or her, would have materially affected his or her settlement with the debtor or released party."

You hereby expressly waive and relinquish all rights and benefits under that section and any law of any other jurisdiction of similar effect with respect to your release of any unknown or unsuspected claims herein.

e. **Excluded Claims**. Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (i) any rights or claims for indemnification you may have pursuant to any written indemnification agreement with the Company to which you are a party or under applicable law; (ii) any rights which are not waivable as a matter of law; and (iii) any claims for breach of this Agreement. You hereby represent and warrant that, other than the Excluded Claims, you are not aware of any claims you have or might have against any of the Released Parties that are not included in the Released Claims. You understand that nothing in this Agreement limits your ability to file a charge or complaint with the Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("**Government Agencies**"). You further understand this Agreement does not limit your ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. While this Agreement does not limit your right to receive an award for information provided to the Securities and Exchange Commission, you understand and agree that, to maximum extent permitted by law, you are otherwise waiving any and all rights you may have to individual relief based on any claims that you have released and any rights you have waived by signing this Agreement.

14. **REPRESENTATIONS**. You hereby represent that you have been paid all compensation owed and for all hours worked, have received all the leave and leave benefits and protections for which you are eligible, pursuant to the Family and Medical Leave Act or otherwise, and have not suffered any on-the-job injury for which you have not already filed a claim.

15. **GENERAL**. This Agreement, including Exhibit A, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable to the fullest extent permitted by law, consistent with the intent of the parties. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the State of California as applied to contracts made and to be performed entirely within California.

If this Agreement is acceptable to you, please sign below and return the original to me within twenty-one (21) days.

Sincerely,

SERVICENOW, INC.

By: /s/ Russ Elmer
Russ Elmer
General Counsel and Corporate Secretary

Exhibit A – Proprietary Information and Inventions Agreement
ACCEPTED AND AGREED:
/s/ Gabrielle Toledano
Gabrielle Toledano

February 24, 2021
Date

EXHIBIT A
PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT

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: April 28, 2021

/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: April 28, 2021

/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 March 31, 2021 (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: April 28, 2021

/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 March 31, 2021 (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: April 28, 2021

/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.