

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- ☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2023  
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  
(State or other jurisdiction of  
incorporation or organization)

20-2056195  
(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 ☐

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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	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

As of September 30, 2023, there were approximately 205 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)*

	September 30, 2023	December 31, 2022
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,112	\$ 1,470
Short-term investments	2,955	2,810
Accounts receivable, net	1,168	1,725
Current portion of deferred commissions	417	369
Prepaid expenses and other current assets	394	280
Total current assets	6,046	6,654
Deferred commissions, less current portion	807	742
Long-term investments	2,939	2,117
Property and equipment, net	1,199	1,053
Operating lease right-of-use assets	699	682
Intangible assets, net	242	232
Goodwill	1,204	824
Deferred tax assets	1,505	636
Other assets	450	359
Total assets	<u>\$ 15,091</u>	<u>\$ 13,299</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 69	\$ 274
Accrued expenses and other current liabilities	1,001	975
Current portion of deferred revenue	4,440	4,660
Current portion of operating lease liabilities	91	96
Total current liabilities	5,601	6,005
Deferred revenue, less current portion	46	70
Operating lease liabilities, less current portion	682	650
Long-term debt, net	1,487	1,486
Other long-term liabilities	93	56
Total liabilities	<u>7,909</u>	<u>8,267</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock	—	—
Treasury stock, at cost	(282)	—
Additional paid-in capital	5,847	4,796
Accumulated other comprehensive loss	(157)	(102)
Retained earnings	1,774	338
Total stockholders' equity	<u>7,182</u>	<u>5,032</u>
Total liabilities and stockholders' equity	<u>\$ 15,091</u>	<u>\$ 13,299</u>

*See accompanying notes to condensed consolidated financial statements*

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Revenues:				
Subscription	\$ 2,216	\$ 1,742	\$ 6,315	\$ 5,031
Professional services and other	72	89	219	274
Total revenues	2,288	1,831	6,534	5,305
Cost of revenues <sup>(1)</sup> :				
Subscription	420	301	1,163	863
Professional services and other	76	99	242	295
Total cost of revenues	496	400	1,405	1,158
Gross profit	1,792	1,431	5,129	4,147
Operating expenses <sup>(1)</sup> :				
Sales and marketing	799	697	2,454	2,092
Research and development	549	456	1,562	1,314
General and administrative	213	187	621	541
Total operating expenses	1,561	1,340	4,637	3,947
Income from operations	231	91	492	200
Interest income	82	26	216	43
Other expense, net	(14)	(15)	(47)	(27)
Income before income taxes	299	102	661	216
Provision for (benefit from) income taxes	57	22	(775)	41
Net income	\$ 242	\$ 80	\$ 1,436	\$ 175
Net income per share - basic	\$ 1.18	\$ 0.39	\$ 7.04	\$ 0.87
Net income per share - diluted	\$ 1.17	\$ 0.39	\$ 7.00	\$ 0.86
Weighted-average shares used to compute net income per share - basic	204,464	202,045	203,961	201,026
Weighted-average shares used to compute net income per share - diluted	206,277	203,121	205,194	203,350
Other comprehensive loss:				
Foreign currency translation adjustments	\$ (64)	\$ (51)	\$ (51)	\$ (125)
Unrealized loss on investments, net of tax	(2)	(21)	(4)	(81)
Other comprehensive loss	(66)	(72)	(55)	(206)
Comprehensive income (loss)	\$ 176	\$ 8	\$ 1,381	\$ (31)

(1) Includes stock-based compensation as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Cost of revenues:				
Subscription	\$ 52	\$ 41	\$ 148	\$ 116
Professional services and other	11	17	40	51
Operating expenses:				
Sales and marketing	132	119	378	337
Research and development	150	127	430	368
General and administrative	68	57	195	166

*See accompanying notes to condensed consolidated financial statements*

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

	Three Months Ended September 30, 2023								Three Months Ended September 30, 2022						
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	
	Shares	Amount	Shares	Amount					Shares	Amount					
Balance at beginning of the period	204,267	—	—	—	5,485	1,532	(91)	6,926	201,614	\$ —	\$ 4,186	\$ 108	\$ (100)	\$ 4,194	
Common stock issued under employee stock plans	788	—	—	—	76	—	—	76	751	—	71	—	—	71	
Common stock repurchased	—	—	(500)	(282)	—	—	—	(282)	—	—	—	—	—	—	
Taxes paid related to net share settlement of equity awards	—	—	—	—	(127)	—	—	(127)	—	—	(111)	—	—	(111)	
Stock-based compensation	—	—	—	—	413	—	—	413	—	—	361	—	—	361	
Other comprehensive loss, net of tax	—	—	—	—	—	—	(66)	(66)	—	—	—	—	(72)	(72)	
Net income	—	—	—	—	—	242	—	242	—	—	—	80	—	80	
Balance at end of the period	205,055	\$ —	(500)	\$ (282)	\$ 5,847	\$ 1,774	\$ (157)	\$ 7,182	202,365	\$ —	\$ 4,507	\$ 188	\$ (172)	\$ 4,523	
	Nine Months Ended September 30, 2023								Nine Months Ended September 30, 2022						
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	
	Shares	Amount	Shares	Amount					Shares	Amount					
Balance at beginning of the period	202,882	\$ —	—	\$ —	\$ 4,796	\$ 338	\$ (102)	\$ 5,032	199,608	\$ —	\$ 3,665	\$ (4)	\$ 34	\$ 3,695	
Cumulative-effect adjustment from adoption of Accounting Standards Update (ASU) 2020-06	—	—	—	—	—	—	—	—	—	—	(19)	17	—	(2)	
Common stock issued under employee stock plans	2,173	—	—	—	193	—	—	193	2,154	—	177	—	—	177	
Common stock repurchased	—	—	(500)	(282)	—	—	—	(282)	—	—	—	—	—	—	
Taxes paid related to net share settlement of equity awards	—	—	—	—	(333)	—	—	(333)	—	—	(352)	—	—	(352)	
Stock-based compensation	—	—	—	—	1,191	—	—	1,191	—	—	1,036	—	—	1,036	
Settlement of 2022 Warrants	—	—	—	—	—	—	—	—	603	—	—	—	—	—	
Settlement of 2022 Notes conversion feature	—	—	—	—	—	—	—	—	—	—	(233)	—	—	(233)	
Benefit from exercise of 2022 Note Hedge	—	—	—	—	—	—	—	—	—	—	233	—	—	233	
Other comprehensive loss, net of tax	—	—	—	—	—	—	(55)	(55)	—	—	—	—	(206)	(206)	
Net income	—	—	—	—	—	1,436	—	1,436	—	—	—	175	—	175	
Balance at end of the period	205,055	\$ —	(500)	\$ (282)	\$ 5,847	\$ 1,774	\$ (157)	\$ 7,182	202,365	\$ —	\$ 4,507	\$ 188	\$ (172)	\$ 4,523	

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,436	\$ 175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	408	315
Amortization of deferred commissions	333	261
Stock-based compensation	1,191	1,038
Deferred income taxes	(874)	(3)
Other	(13)	9
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	552	445
Deferred commissions	(453)	(369)
Prepaid expenses and other assets	(183)	(73)
Accounts payable	(188)	116
Deferred revenue	(217)	(156)
Accrued expenses and other liabilities	(199)	(197)
Net cash provided by operating activities	\$ 1,793	\$ 1,561
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(433)	(406)
Business combinations, net of cash acquired	(282)	(57)
Purchases of investments	(3,805)	(2,811)
Purchases of non-marketable investments	(56)	(138)
Sales and maturities of investments	2,868	1,700
Other	(15)	3
Net cash used in investing activities	\$ (1,723)	\$ (1,709)
<b>Cash flows from financing activities:</b>		
Repayments of convertible senior notes attributable to principal	—	(94)
Proceeds from employee stock plans	193	177
Repurchases of common stock	(282)	—
Taxes paid related to net share settlement of equity awards	(333)	(352)
Net cash used in financing activities	\$ (422)	\$ (269)
Foreign currency effect on cash, cash equivalents and restricted cash	(4)	(61)
Net change in cash, cash equivalents and restricted cash	(356)	(478)
Cash, cash equivalents and restricted cash at beginning of period	1,475	1,732
Cash, cash equivalents and restricted cash at end of period	\$ 1,119	\$ 1,254
<b>Cash, cash equivalents and restricted cash at end of period:</b>		
Cash and cash equivalents	\$ 1,112	\$ 1,248
Restricted cash included in prepaid expenses and other current assets	7	6
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	\$ 1,119	\$ 1,254
<b>Supplemental disclosures of other cash flow information:</b>		
Interest paid	\$ 23	\$ 23
Income taxes paid, net of refunds	103	33
<b>Non-cash investing and financing activities:</b>		
Settlement of 2022 Notes conversion feature	—	233
Benefit from exercise of 2022 Note Hedge	—	233
Property and equipment included in accounts payable, accrued expenses and other liabilities	63	34

*See accompanying notes to condensed consolidated financial statements*

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

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

**(1) Description of the Business**

ServiceNow was founded on a simple premise: a better technology platform will help work flow better. We help global enterprises across industries, universities and governments to digitize their workflows. We organize our workflow applications along four primary areas: Technology, Customer and Industry, Employee and Creator. The products under each of our workflows help customers connect, automate and empower work across systems and silos to enable great outcomes for businesses and great experiences for people. The Now Platform integrates with our customers’ cloud platforms and systems of choice, allowing our customers to deliver workflows across their current and future preferred systems of record and collaboration platforms.

**(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 United States (“U.S.”) generally accepted accounting principles (“GAAP”) for complete financial statements due to the permitted exclusion of certain disclosures for interim reporting. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary under GAAP for fair statement of results for the interim periods presented have been included. As a result of displaying amounts in millions, rounding differences may exist in the condensed consolidated financial statements and footnote tables. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the year ending December 31, 2023 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2022 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, 2022, which was filed with the SEC on January 31, 2023.

***Principles of Consolidation***

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

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Such management estimates and assumptions include, but are not limited to, standalone selling price for each distinct performance obligation included in customer contracts with multiple performance obligations, the period of benefit for deferred commissions, valuation of intangible assets, the useful life of property and equipment and identifiable intangible assets, stock-based compensation expense and income taxes. Actual results could differ from those estimates.

***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, 2022, which was filed with the SEC on January 31, 2023.



### ***Concentration of Credit Risk and Significant Customers***

Credit risk arising from accounts receivable is mitigated to a certain extent due to our large number of customers and their dispersion across various industries and geographies. As of September 30, 2023, we had one customer, a U.S. federal channel partner and systems integrator, that represented 26% of our accounts receivable balance. Based on our periodic credit evaluations, there have been no historical collection concerns with this customer. As of December 31, 2022, there were no customers that represented more than 10% of our accounts receivable balance. There were no customers that individually exceeded 10% of our total revenues in any of the periods presented. For purposes of assessing concentration of credit risk and significant customers, a group of customers under common control or customers that are affiliates of each other are regarded as a single customer.

### ***Prior Period Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications did not result in a restatement of prior period 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):

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities:				
Commercial paper	\$ 475	\$ —	\$ (1)	\$ 474
Corporate notes and bonds	3,324	—	(33)	3,291
Certificates of deposit	112	—	—	112
U.S. government and agency securities	1,958	—	(22)	1,936
Mortgage-backed and asset-backed securities	103	—	(22)	81
Total available-for-sale debt securities	<u>\$ 5,972</u>	<u>\$ —</u>	<u>\$ (78)</u>	<u>\$ 5,894</u>

  

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities:				
Commercial paper	\$ 558	\$ —	\$ (2)	\$ 556
Corporate notes and bonds	3,414	—	(52)	3,362
Certificates of deposit	162	—	—	162
U.S. government and agency securities	768	—	(2)	766
Mortgage-backed and asset-backed securities	98	—	(17)	81
Total available-for-sale debt securities	<u>\$ 5,000</u>	<u>\$ —</u>	<u>\$ (73)</u>	<u>\$ 4,927</u>

As of September 30, 2023, the contractual maturities of our available-for-sale debt securities, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheet and mortgage-backed and asset-backed securities that do not have a single maturity, did not exceed 36 months. The fair values of available-for-sale debt securities, by remaining contractual maturity, are as follows (in millions):

	September 30, 2023
Due within 1 year	\$ 2,955
Due in 1 year through 5 years	2,858
Instruments not due in single maturity	81
Total	<u>\$ 5,894</u>

As of September 30, 2023 and December 31, 2022, the fair value of available-for-sale debt securities in a continuous unrealized loss position totaled \$5,289 million and \$4,232 million, respectively. As of September 30, 2023, unrealized losses of \$41 million from available-for-sale debt securities is from securities in a continuous unrealized loss position greater than 12 months.

For all available-for-sale debt securities that were in unrealized loss positions, we have determined that it is more likely than not we will hold the securities until maturity or a recovery of the cost basis. Unrealized losses on available-for-sale debt securities were due primarily to changes in market interest rates, and credit-related impairment losses were not material as of September 30, 2023.

#### ***Non-Marketable Equity Investments***

As of September 30, 2023 and December 31, 2022, the total amount of non-marketable equity investments in privately held companies included in other assets on our condensed consolidated balance sheets was \$288 million and \$252 million, respectively. These balances include a \$100 million investment in the common and preferred shares of Celonis SE, a privately held company that develops and sells process mining software. Our non-marketable equity investments are accounted for using the measurement alternative, which measures the investments at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes resulting from the issuance of similar or identical securities in an orderly transaction by the same issuer. Determining whether an observed transaction is similar to a security within our portfolio requires judgment based on the rights and preferences of the securities. Recording upward and downward adjustments to the carrying value of our non-marketable equity investments as a result of observable price changes requires quantitative assessments of the fair value of our non-marketable equity investments using various valuation methodologies and involves the use of estimates. The adjustments made during the three and nine months ended September 30, 2023 and 2022 are immaterial. We classify these fair value measurements as Level 3 within the fair value hierarchy.

#### (4) Fair Value Measurements

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis as of September 30, 2023 (in millions):

	Level 1	Level 2	Total
<b>Cash equivalents:</b>			
Money market funds	\$ 457	\$ —	\$ 457
Commercial paper	—	36	36
Corporate notes and bonds	—	1	1
Deposits	291	—	291
U.S. government and agency securities	—	64	64
<b>Marketable securities:</b>			
Commercial paper	—	474	474
Corporate notes and bonds	—	3,291	3,291
Certificates of deposit	—	112	112
U.S. government and agency securities	—	1,936	1,936
Mortgage-backed and asset-backed securities	—	81	81
Total	\$ 748	\$ 5,995	\$ 6,743

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis as of December 31, 2022 (in millions):

	Level 1	Level 2	Total
<b>Cash equivalents:</b>			
Money market funds	\$ 738	\$ —	\$ 738
Commercial paper	—	36	36
Corporate notes and bonds	—	10	10
Certificates of deposit	—	2	2
Deposits	124	—	124
U.S. government and agency securities	—	8	8
<b>Marketable securities:</b>			
Commercial paper	—	556	556
Corporate notes and bonds	—	3,362	3,362
Certificates of deposit	—	162	162
U.S. government and agency securities	—	766	766
Mortgage-backed and asset-backed securities	—	81	81
Total	\$ 862	\$ 4,983	\$ 5,845

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), pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) or using unobservable inputs that are supported by little or no market activity (Level 3 inputs). Our non-marketable equity investments are not included in the table above and are discussed in Note 3. See Note 8 for the fair value measurement of our derivative contracts and Note 10 for the fair value measurement of our long-term debt, which are also not included in the table above. Our marketable equity investments are classified within Level 1 and are immaterial as of September 30, 2023 and December 31, 2022.

## (5) Business Combinations

On July 17, 2023, we acquired all outstanding shares of G2K Group GmbH, an artificial intelligence powered platform, for \$464 million in a cash transaction. The consideration is paid in two installments. The first installment was made at the close of the transaction in July 2023. The second installment will be paid in February 2024 and is recognized as accrued expenses and other current liabilities, which is a non-cash financing activity as of September 30, 2023. The acquisition is intended to enhance our Now Platform with the acquired smart Internet of Things (“IoT”) technology, enabling businesses to intelligently action digital and in-store data with enterprise-grade workflows.

The purchase price was preliminarily allocated based on the estimated fair value of the developed technology intangible asset of \$75 million (six-year estimated useful life), net tangible liabilities of \$1 million, deferred tax liabilities of \$23 million and goodwill of \$413 million, which is not deductible for income tax purposes.

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

We have included the financial results of the business combination in the condensed consolidated financial statements from the date of acquisition, which was not material.

During the nine months ended September 30, 2022, we completed an acquisition for total consideration of \$57 million primarily to enhance our products with the acquired technology and engineering workforce. The acquisition was not material to our condensed consolidated financial statements.

## (6) Goodwill and Intangible Assets

Goodwill balance consists of the following (in millions):

	<b>Carrying Amount</b>
Balance as of December 31, 2022	\$ 824
Goodwill acquired	413
Foreign currency translation adjustments	(33)
Balance as of September 30, 2023	<u>\$ 1,204</u>

Intangible assets consist of the following (in millions):

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Developed technology	\$ 507	\$ 434
Patents	72	72
Other	11	15
Intangible assets, gross	590	521
Less: accumulated amortization	(348)	(289)
Intangible assets, net	<u>\$ 242</u>	<u>\$ 232</u>

The weighted-average useful life of the acquired developed technology for the nine months ended September 30, 2023 and 2022 was approximately five years. Amortization expense for intangible assets for the three months ended September 30, 2023 and 2022 was \$21 million and \$20 million, respectively, and for the nine months ended September 30, 2023 and 2022 was \$63 million and \$60 million, respectively.

The following table presents the estimated future amortization expense related to intangible assets held at September 30, 2023 (in millions):

Years Ending December 31,		
Remainder of 2023	\$	22
2024		82
2025		62
2026		33
2027		19
Thereafter		24
Total future amortization expense	\$	242

## (7) Property and Equipment

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

	September 30, 2023	December 31, 2022
Computer equipment	\$ 1,902	\$ 1,606
Computer software	94	82
Leasehold and other improvements	280	226
Furniture and fixtures	89	81
Construction in progress	14	53
Property and equipment, gross	2,379	2,048
Less: Accumulated depreciation	(1,180)	(995)
Property and equipment, net	\$ 1,199	\$ 1,053

Construction in progress consists of costs primarily related to leasehold and other improvements. Depreciation expense for the three months ended September 30, 2023 and 2022 was \$98 million and \$66 million, respectively, and for the nine months ended September 30, 2023 and 2022 was \$267 million and \$185 million, respectively.

## (8) Derivative Contracts

As of September 30, 2023 and December 31, 2022, we had foreign currency forward contracts with total notional values of \$1,592 million and \$1,360 million, respectively, which are not designated as hedging instruments. Our foreign currency forward contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates. Outstanding foreign currency forward contracts are recorded at gross fair value as prepaid expenses and other current assets as well as accrued expenses and other current liabilities on the condensed consolidated balance sheets. The gross fair value of these foreign currency forward contracts was immaterial as of September 30, 2023 and December 31, 2022. The gains (losses) recognized for these foreign currency forward contracts were immaterial for each of the three and nine months ended September 30, 2023 and 2022.

## (9) Deferred Revenue and Performance Obligations

Revenues recognized during the three months ended September 30, 2023 and 2022 from amounts included in deferred revenue as of June 30, 2023 and 2022 were \$2.0 billion and \$1.6 billion, respectively.

Revenues recognized during the nine months ended September 30, 2023 and 2022 from amounts included in deferred revenue as of December 31, 2022 and 2021 were \$4.1 billion and \$3.3 billion, respectively.

## Remaining Performance Obligations

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

As of September 30, 2023, the total non-cancellable RPO under our contracts with customers was \$14.4 billion and we expect to recognize revenues on approximately 52% of these RPO over the following 12 months. The majority of the non-current RPO will be recognized over the next 13 to 36 months.

## (10) Debt

For the periods ended September 30, 2023 and December 31, 2022, the carrying value of our outstanding debt was \$1,487 million and \$1,486 million, respectively, net of unamortized debt discount and issuance costs of \$13 million and \$14 million, respectively.

We consider the fair value of the 2030 Notes at September 30, 2023 and December 31, 2022 to be a Level 2 measurement. The estimated fair value of the 2030 Notes based on the closing trading price per \$100, was \$1,152 million and \$1,144 million at September 30, 2023 and December 31, 2022, respectively.

### 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 \$13 million for debt issuance costs. The effective interest rate for the 2030 Notes was 1.53% and included interest payable, amortization of debt issuance cost and amortization of debt discount, as applicable. Interest is payable semi-annually in arrears on March 1 and September 1 of each year, beginning on March 1, 2021, and the entire outstanding principal amount is due at maturity on September 1, 2030. The 2030 Notes are unsecured obligations and the indentures governing the 2030 Notes contain customary events of default and covenants that, among others and subject to exceptions, restrict our 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, Note Hedge and Warrants

In May and June 2017, we issued an aggregate of \$782.5 million of 0% convertible senior notes (the “2022 Notes”), which were converted prior to or settled on June 1, 2022, in accordance with their terms.

	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

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. The 2022 Note Hedge offset the dilution and cash payments in excess of the principal amount of the converted 2022 Notes and expired upon the maturity date of the 2022 Notes, which was on June 1, 2022.

	Purchase	Initial Shares (in millions)	Shares as of September 30, 2023
2022 Note Hedge	\$ 128	6	—

Separately, we entered into warrant transactions with certain investment banks, whereby we sold warrants to acquire 6 million shares of our common stock with aggregate proceeds of \$54 million (the “2022 Warrants”). The 2022 Warrants were separate transactions and were not remeasured through earnings each reporting period. The 2022 Warrants were not part of the 2022 Notes or 2022 Note Hedge.

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

### (11) Accumulated Other Comprehensive Loss

The following table shows the components of accumulated other comprehensive loss, net of tax, in the stockholders’ equity section of our condensed consolidated balance sheets (in millions):

	September 30, 2023	December 31, 2022
Foreign currency translation adjustment	\$ (76)	\$ (25)
Net unrealized loss on investments	(81)	(77)
Accumulated other comprehensive loss	<u>\$ (157)</u>	<u>\$ (102)</u>

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

### (12) Stockholders' Equity

#### *Common Stock*

We are authorized to issue a total of 600 million shares of common stock as of September 30, 2023. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of September 30, 2023, we had 204.6 million shares of common stock outstanding and had reserved shares of common stock for future issuance as follows (in thousands):

	September 30, 2023
Stock plans:	
Options outstanding	1,158
RSUs <sup>(1)</sup>	6,964
Shares of common stock available for future grants:	
Amended and Restated 2021 Equity Incentive Plan <sup>(2)</sup>	11,934
Amended and Restated 2012 Employee Stock Purchase Plan <sup>(2)</sup>	8,508
Total shares of common stock reserved for future issuance	<u>28,564</u>

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

We issued a total of 2.2 million shares for each of the nine months ended September 30, 2023 and 2022, from stock option exercises, vesting of RSUs, net of employee payroll taxes, and purchases from the employee stock purchase plan (“ESPP”).

## Treasury Stock

In May 2023, our board of directors authorized a program to repurchase up to \$1.5 billion of our common stock (the “Share Repurchase Program”). Under this new program, we may repurchase our common stock from time to time through open market purchases, in privately negotiated transactions, or by other means, including through the use of trading plans intended to qualify under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, in accordance with applicable securities laws and other restrictions. The Share Repurchase Program does not have a fixed expiration date, may be suspended or discontinued at any time, and does not obligate us to acquire any amount of common stock. The timing, manner, price, and amount of any repurchases will be determined by us at our discretion and will depend on a variety of factors, including business, economic and market conditions, prevailing stock prices, corporate and regulatory requirements, and other considerations.

During the three months ended September 30, 2023, the Company repurchased 0.5 million shares of its common stock for \$282 million. All repurchases were made in open market transactions. Repurchases of common stock are recognized as treasury stock and held for future issuance. As of September 30, 2023, approximately \$1.2 billion of the originally authorized amount under the Share Repurchase Program remained available for future repurchases.

## (13) Equity Awards

We currently have three equity incentive plans: 2012 Equity Incentive Plan (the “2012 Plan”), amended and restated 2021 Equity Incentive Plan (the “Restated 2021 Plan”) and 2022 New-Hire Equity Incentive Plan (the “2022 Plan”). The 2012 Plan was terminated in connection with the approval of the 2021 Plan on June 7, 2021 but continues to govern the terms of outstanding equity awards that were granted prior to the termination of the 2012 Plan. As of June 7, 2021, we no longer grant equity awards pursuant to the 2012 Plan. The Restated 2021 Plan was approved by the shareholders on June 1, 2023 to increase shares available for future grants by approximately 10 million shares. Upon effectiveness of the Restated 2021 Plan, the 2022 Plan was terminated, and no additional awards under the 2022 Plan have been made since the effective date of the Restated 2021 Plan. Outstanding equity awards under the 2022 Plan continue to be subject to the terms and conditions of the 2022 Plan.

The Restated 2021 Plan and the 2012 Plan provide for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, RSUs, performance-based stock awards and other forms of equity compensation (collectively, “equity awards”). The 2022 Plan permits the grant of any of the foregoing awards with the exception of incentive stock options. In addition, the 2022 Plan, the Restated 2021 Plan and the 2012 Plan provide for the grant of performance cash awards. Incentive stock options may be granted only to employees. All other equity awards may be granted to employees, including officers, as well as directors and consultants.

Our Amended and Restated 2012 Employee Stock Purchase Plan (the “2012 ESPP”) authorizes the issuance of shares of common stock pursuant to purchase rights granted to our employees. The price at which common stock is purchased under the 2012 ESPP is equal to 85% of the fair market value of our common stock on the first or last day of the offering period, whichever is lower. Offering periods are six months long and begin on February 1 and August 1 of each year. The number of shares of common stock reserved for issuance will not be increased without shareholder approval.

## Stock Options

A summary of stock option activity for the nine months ended September 30, 2023 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, 2022	1,237	\$ 590.36		
Exercised	(24)	\$ 66.20		\$ 11
Forfeited	(55)	\$ 626.10		
Outstanding at September 30, 2023	1,158	\$ 599.26	7.7	\$ 68
Vested and expected to vest as of September 30, 2023	940	\$ 582.46	7.6	\$ 67
Vested and exercisable as of September 30, 2023	149	\$ 193.82	5.2	\$ 54



Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options.

The total fair value of stock options vested during the nine months ended September 30, 2023 was \$5 million. No stock options were granted during the nine months ended September 30, 2023.

As of September 30, 2023, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was \$30 million. The weighted-average remaining vesting period of unvested stock options at September 30, 2023 was approximately one year.

## RSUs

A summary of RSU activity for the nine months ended September 30, 2023 was as follows:

	Number of Shares	Weighted-Average Grant-Date Fair Value Per Share
	(in thousands)	
Outstanding at December 31, 2022	5,737	\$ 505.79
Granted	3,951	\$ 472.32
Vested	(2,338)	\$ 469.05
Forfeited	(386)	\$ 507.13
Outstanding at September 30, 2023	6,964	\$ 499.57
Expected to vest as of September 30, 2023	6,135	

RSUs outstanding as of September 30, 2023 were comprised of 6.5 million RSUs with only service conditions and 0.5 million RSUs with both service and performance conditions, including certain RSUs with additional market conditions. The total intrinsic value of the RSUs vested was \$1.2 billion for the nine months ended September 30, 2023. As of September 30, 2023, the aggregate intrinsic value of RSUs outstanding was \$3.9 billion and RSUs expected to vest was \$3.4 billion.

PRSUs with service, performance and market vesting criteria are considered as eligible to vest when approved by the compensation committee of our board of directors in January of the year following the grant. The ultimate number of shares eligible to vest for PRSUs range from 0% to 200% of the target number of shares depending on achievement relative to the performance metrics and, for certain PRSUs, depend on our total shareholder return relative to that of the S&P 500 index over the applicable measurement period. The eligible shares subject to PRSUs granted during the nine months ended September 30, 2023 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 dates. The number of PRSUs granted included in the table above reflects the shares that could be eligible to vest at 100% of target for PRSUs and includes adjustments for over or under achievement for PRSUs granted in the prior year. We recognized \$111 million and \$91 million of stock-based compensation, net of actual and estimated forfeitures, associated with PRSUs on a graded vesting basis during the nine months ended September 30, 2023 and 2022, respectively.

As of September 30, 2023, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was \$2.7 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 potentially dilutive 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 millions, except for number of shares reflected in thousands and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net income	\$ 242	\$ 80	\$ 1,436	\$ 175
<b>Denominator:</b>				
Weighted-average shares outstanding - basic	204,464	202,045	203,961	201,026
Weighted-average effect of potentially dilutive securities:				
Common stock options	122	120	118	146
RSUs	1,674	956	1,113	1,598
ESPP obligations	17	—	2	—
2022 Notes settlements	—	—	—	375
Settlement of 2022 Warrants	—	—	—	205
Weighted-average shares outstanding - diluted	206,277	203,121	205,194	203,350
Net income per share - basic	\$ 1.18	\$ 0.39	\$ 7.04	\$ 0.87
Net income per share - diluted	\$ 1.17	\$ 0.39	\$ 7.00	\$ 0.86
Common stock options, RSUs and ESPP obligations excluded from diluted net income per share because their effect would have been anti-dilutive	3,068	5,255	3,647	4,836

## **(15) Provision for (Benefit from) 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.

The income tax provision was \$57 million for the three months ended September 30, 2023, and our income tax benefit was \$775 million for the nine months ended September 30, 2023. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates, tax deductible research and development costs and the valuation allowance release through the effective tax rate. The income tax benefit was primarily attributable to the release of the valuation allowance of certain U.S. federal and state deferred tax assets. We regularly assess the need for a valuation allowance against our deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. As of June 30, 2023, we achieved cumulative U.S. income during the prior twelve quarters when considering pre-tax income adjusted for permanent differences and other comprehensive losses. Based on all available positive and negative evidence, having demonstrated sustained profitability which is objective and verifiable, and taking into account anticipated future earnings, we concluded it is more likely than not that our U.S. federal and state deferred tax assets will be realizable, with the exception of California. We continue to maintain a valuation allowance against our California deferred tax assets due to the uncertainty regarding realizability of these deferred tax assets as they have not met the “more likely than not” realization criteria, particularly as we expect research and development tax credit generation to exceed our ability to use the credits in future years. When a change in valuation allowance is recognized during an interim period, the change in valuation allowance resulting from current year income is included in the annual effective tax rate and the release of valuation allowance supported by projections of future taxable income is recorded as a discrete tax benefit in the interim period. Of the \$1.2 billion valuation allowance as of December 31, 2022, we released \$843 million as a discrete tax benefit and \$142 million as part of the effective tax rate during the nine months ended September 30, 2023. \$65 million of the valuation allowance will be released during the fourth quarter of 2023, and we will continue to maintain a valuation allowance of \$177 million against our California deferred tax assets. We will continue to monitor the need for a valuation allowance against our deferred tax assets on a quarterly basis.

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

We are subject to taxation in the United States and foreign jurisdictions. As of September 30, 2023, our tax years 2004 to 2022 remain subject to examination in most jurisdictions.

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

## **(16) Commitments and Contingencies**

### ***Operating Leases***

For some of our offices and data centers, we have entered into non-cancellable 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 \$33 million and \$96 million, excluding short-term lease costs, variable lease costs and sublease income, each of which were immaterial, for the three and nine months ended September 30, 2023, respectively.

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

For the nine months ended September 30, 2023 and 2022, total cash paid for amounts included in the measurement of operating lease liabilities was \$61 million and \$56 million, respectively. Operating lease liabilities arising from obtaining operating right-of-use assets totaled \$93 million and \$73 million for the nine months ended September 30, 2023 and 2022, respectively, of which the increase is largely related to additional office facilities located in Dublin, Ireland in line with the original commitment.

As of September 30, 2023, the weighted-average remaining lease term is approximately nine years, and the weighted-average discount rate is 4%.

Maturities of operating lease liabilities as of September 30, 2023 are presented in the table below (in millions):

Remainder of 2023	\$	28
2024		107
2025		118
2026		96
2027		80
Thereafter		490
Total operating lease payments		919
Less: imputed interest		(146)
Present value of operating lease liabilities	\$	773

As of September 30, 2023, we have no operating leases that have not yet commenced.

### ***Other Commitments***

Other contractual commitments consist of data center and IT operations and sales and marketing activities related to our daily business operations. There were no material contractual obligations that were entered into during the nine months ended September 30, 2023 that were outside the ordinary course of business. During the three months ended September 30, 2022, we entered into a non-cancellable, \$500 million agreement with Microsoft to purchase cloud services over five years, as we accelerate Azure adoption for mutual customers.

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

Further, \$45 million of unrecognized tax benefits have been recorded as liabilities as of September 30, 2023.

### ***Legal Proceedings***

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

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

### ***Indemnification Provisions***

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

## (17) Information about Geographic Areas and Products

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
North America <sup>(1)</sup>	\$ 1,452	\$ 1,209	\$ 4,165	\$ 3,464
EMEA <sup>(2)</sup>	585	432	1,664	1,299
Asia Pacific and other	251	190	705	542
Total revenues	<u>\$ 2,288</u>	<u>\$ 1,831</u>	<u>\$ 6,534</u>	<u>\$ 5,305</u>

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

	September 30, 2023	December 31, 2022
North America <sup>(3)</sup>	\$ 786	\$ 664
EMEA <sup>(2)</sup>	257	221
Asia Pacific and other	156	168
Total property and equipment, net	<u>\$ 1,199</u>	<u>\$ 1,053</u>

(1) Revenues attributed to the United States were 94% of North America revenues for each of the three and nine months ended September 30, 2023 and 2022.

(2) Europe, the Middle East and Africa (“EMEA”).

(3) Property and equipment, net attributed to the United States was 83% and 85% of property and equipment, net attributable to North America as of September 30, 2023 and December 31, 2022, respectively.

Subscription revenues consist of the following (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Digital workflow products	\$ 1,961	\$ 1,534	\$ 5,587	\$ 4,437
ITOM products	255	208	728	594
Total subscription revenues	<u>\$ 2,216</u>	<u>\$ 1,742</u>	<u>\$ 6,315</u>	<u>\$ 5,031</u>

Our digital workflow products are generally priced on a per user basis and include the Now Platform, IT Service Management, Strategic Portfolio Management (formerly known as IT Business Management), IT Asset Management and Enterprise Asset Management, Security Operations, Integrated Risk Management (formerly known as Governance, Risk and Compliance), ESG Management, HR Service Delivery, Workplace Service Delivery, Legal Service Delivery, Customer Service Management, Field Service Management, Industry Solutions, App Engine, Automation Engine, Platform Privacy and Security, Source-to-Pay Operations (formerly known as Procurement Operations Management), Supplier Lifecycle Operations, Accounts Payable Operations and Impact. Our IT Operations Management (“ITOM”) products are generally priced on a subscription unit basis, which allows us to measure customers’ management of various IT resources, and decreasingly on a per node (physical or virtual server) basis.

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

*The following discussion and analysis of our financial condition, results of operations and cash flows should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2022 included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC"), on January 31, 2023. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those identified herein, and those discussed in the section titled "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on January 31, 2023 and in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.*

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

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

### Overview

ServiceNow was founded on a simple premise: a better technology platform will help work flow better. Our purpose is to make the world work better for everyone. We help global enterprises across industries, universities and governments to digitize their workflows. The Now Platform, seamlessly connects workflows across siloed organizations and systems in a way that unlocks productivity, improves experiences for both employees and customers and delivers real business outcomes. We organize our workflow applications along four primary areas: Technology, Customer and Industry, Employee and Creator. The Now Platform enables our customers' digital transformation from non-integrated enterprise technology solutions with manual and disconnected processes and activities, to integrated enterprise technology solutions with automation and connected processes and activities. The transformation to digital operations, enabled by the Now Platform, increases our customers' resiliency and security and delivers great experiences and additional value to their employees and consumers.

We are closely monitoring the unfolding events of the Russian invasion of Ukraine and the current armed conflict in Israel and the Gaza Strip. While these events are still evolving and the outcome remains highly uncertain, we do not believe the conflicts will have a material impact on our business and results of operations. However, if the conflicts continue or worsen, leading to greater global economic disruptions and uncertainty, our business and results of operations could be materially impacted. Our customers in these regions represented an immaterial portion of our net assets as of September 30, 2023 and December 31, 2022, and of our total consolidated revenues for each of the three and nine months ended September 30, 2023 and 2022.

Additionally, other recent macroeconomic events, including rising interest rates, global inflation and bank failures, have led to further economic uncertainty in the global economy. To mitigate risk, our cash and cash equivalents are distributed across several large financial institutions and are not concentrated in one financial institution. We have not experienced any impact to our liquidity or to our current and projected business operations and financial condition due to recent bank failures. In addition, we have policy restrictions in place on the types of securities that can be purchased as part of our available-for-sale debt securities portfolio. These restrictions take industry and company concentration limits into consideration among other things. Furthermore, the majority of our non-marketable equity investments do not have material relationships with any one financial institution, and therefore, we believe that our exposure to loss is immaterial. We will continue to monitor the direct and indirect impact of macroeconomic events on our business and financial results.

See the “Risk Factors” section in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on January 31, 2023 and in Part II, Item 1A of this Quarterly Report on Form 10-Q for further discussion of the possible impact of the Russia-Ukraine conflict and the macroeconomic conditions on our business.

## 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-cancellable amounts that will be invoiced and recognized as revenue in future periods. RPO excludes contracts that are billed in arrears, such as certain time and materials contracts, as we apply the “right to invoice” practical expedient under relevant accounting guidance. Current remaining performance obligations (“cRPO”) represents RPO that will be recognized as revenue in the next 12 months.

As of September 30, 2023, our RPO was \$14.4 billion, of which 52% represented cRPO. RPO and cRPO increased by 26% compared to September 30, 2022. Factors that may cause our RPO to vary from period to period include the following:

- *Foreign currency exchange rates.* While a majority of our contracts have historically been in U.S. Dollars, an increasing percentage of our contracts in recent periods has been in foreign currencies, particularly the Euro and British Pound Sterling. Fluctuations in foreign currency exchange rates as of the balance sheet date will cause variability in our RPO.
- *Mix of offerings.* In a minority of cases, we allow our customers to host our software by themselves or through a third-party service provider. In self-hosted offerings, we recognize a portion of the revenue upfront upon the delivery of the software and as a result, such revenue is excluded from RPO.
- *Subscription start date.* From time to time, we enter into contracts with a subscription start date in the future and these amounts are included in RPO if such contracts are signed by the balance sheet date.
- *Timing of contract renewals.* While customers typically renew their contracts at the end of the contract term, from time to time, customers may do so either before or after the scheduled expiration date. For example, in cases where we are successful in selling additional products or services to an existing customer, a customer may decide to renew its existing contract early to ensure that all its contracts expire on the same date. In other cases, prolonged negotiations or other factors may result in a contract not being renewed until after it has expired.
- *Contract duration.* While we typically enter into multi-year subscription services, the duration of our contracts varies. Further, we continue to see an increase in the number of 12-month agreements entered into with the U.S. federal government throughout the year, with the highest number of agreements entered into in the quarter ended September 30, 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 1,789 and 1,535 customers with ACV greater than \$1 million as of September 30, 2023 and 2022, 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 plus cash paid for legal settlements, repayments of convertible senior notes attributable to debt discount and business combination and other related costs including compensation expense, reduced by purchases of property and equipment. Purchases of property and equipment are included in cash used in investing activities under GAAP. We believe information regarding free cash flow provides useful information to investors because it is an indicator of the strength and performance of our business operations. However, our calculation of free cash flow may not be comparable to similar measures used by other companies. A calculation of free cash flow is provided below:

	Nine Months Ended September 30,		% Change
	2023	2022	
	(dollars in millions)		
Free cash flow:			
Net cash provided by operating activities	\$ 1,793	\$ 1,561	15 %
Purchases of property and equipment	(433)	(406)	7 %
Business combination and other related costs	24	5	380 %
Free cash flow	<u>\$ 1,384</u>	<u>\$ 1,160</u>	19 %

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.

**Renewal rate.** We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the ACV from customers lost during the period, divided by the sum of (i) the total ACV from all customers that renewed during the period, excluding changes in price or users, and (ii) the total ACV from all customers lost during the period. Accordingly, our renewal rate is calculated based on ACV and is not based on the number of customers that have renewed. Further, our renewal rate does not reflect increased or decreased purchases from our customers to the extent such customers are not lost customers or lapsed renewals. A lost customer is a customer that did not renew an expiring contract and that, in our judgment, will not be renewed. Typically, a customer that reduces its subscription upon renewal is not considered a lost customer. However, in instances where the subscription decrease represents the majority of the customer’s ACV, we may deem the renewal as a lost customer. For our renewal rate calculation, we define a customer as an entity with a separate production instance of our service and an active subscription contract as of the measurement date, instead of an entity with a unique GULT or DUNS number. We adjust our renewal rate for acquisitions, consolidations and other customer events that cause the merging of two or more accounts occurring at the time of renewal. Our renewal rate was 98% for each of the three and nine months ended September 30, 2023 and 2022. As our renewal rate is impacted by the timing of renewals, which could occur in advance of, or subsequent to the original contract end date, period-to-period comparison of renewal rates may not be meaningful.



## Components of Results of Operations

### *Revenues*

*Subscription revenues.* Subscription revenues are primarily comprised of fees that give customers access to the ordered subscription service for both self-hosted offerings and cloud-based subscription offerings, and related standard and enhanced support and updates, if any, to the subscription service during the subscription term. For our cloud-based offerings, we recognize revenue ratably over the subscription term. For self-hosted offerings, a substantial portion of the sales price is recognized upon delivery of the software, which may cause greater variability in our subscription revenues and subscription gross margin. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future updates, when and if available, offered during the subscription term. We typically invoice our customers for subscription fees in annual increments upon execution of the initial contract or subsequent renewal. Our contracts are generally non-cancellable 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 basis. Professional services revenues are recognized as services are delivered. Other revenues primarily consist of fees from customer training delivered on-site or through publicly available classes. Typical payment terms require our customers to pay us within 30 days of invoice.

We sell our subscription services primarily through our direct sales organization. We also sell services through managed service providers and resale partners. We also generate revenues from certain professional services and from training of customers and partner personnel, through both our direct team and indirect channel sales. Revenues from our direct sales organization represented 79% of our total revenues for each of the three and nine months ended September 30, 2023 and 2022. For purposes of calculating revenues from our direct sales organization, revenues from systems integrators and managed services providers are included as part of the direct sales organization.

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

### *Cost of Revenues*

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

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

Professional services are performed directly by our services team, as well as by contracted third-party partners. Fees paid by us to third-party partners are primarily recognized as cost of revenues as the professional services are delivered. Cost of revenues associated with our professional services engagements contracted with third-party partners as a percentage of professional services and other revenues was 10% for each of the three and nine months ended September 30, 2023 and 14% and 13% for each of the three and nine months ended September 30, 2022, 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. In addition, sales and marketing expenses include branding expenses, marketing program expenses, which include events such as Knowledge, 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 (“R&D”) expenses consist primarily of personnel-related expenses directly associated with our research and development staff, including salaries, benefits, bonuses, 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 (“G&A”) expenses consist primarily of personnel-related expenses for our executive, finance, legal, human resources, facilities and administrative personnel, including salaries, benefits, bonuses, stock-based compensation, external legal, accounting and other professional services fees, other corporate expenses, amortization of intangible assets and allocated overhead.

### ***Provision for (Benefit from) Income Taxes***

Provision for (benefit from) income taxes consists of federal, state and foreign income taxes. Our income tax benefit for the nine months ended September 30, 2023 is primarily attributable to the release of the valuation allowance against certain U.S. federal and state deferred tax assets, excluding California. We continue to maintain a valuation allowance against our California deferred tax assets due to the uncertainty regarding realizability of these deferred tax assets as they have not met the “more likely than not” realization criteria, particularly as we expect R&D tax credit generation to exceed our ability to use the credits in future years.

## **Comparison of the Three and Nine Months Ended September 30, 2023 and 2022**

### ***Revenues***

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
<b>Revenues:</b>						
Subscription	\$ 2,216	\$ 1,742	27%	\$ 6,315	\$ 5,031	26%
Professional services and other	72	89	(19%)	219	274	(20%)
Total revenues	<u>\$ 2,288</u>	<u>\$ 1,831</u>	25%	<u>\$ 6,534</u>	<u>\$ 5,305</u>	23%
<b>Percentage of revenues:</b>						
Subscription	97%	95%		97%	95%	
Professional services and other	3%	5%		3%	5%	
Total	<u>100%</u>	<u>100%</u>		<u>100%</u>	<u>100%</u>	

Subscription revenues increased by \$474 million and \$1,284 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily driven by increased purchases by new and existing customers. Included in subscription revenues is \$67 million and \$53 million of revenues recognized upfront from the delivery of software associated with self-hosted offerings during the three months ended September 30, 2023 and 2022, respectively, and \$210 million and \$179 million during the nine months ended September 30, 2023 and 2022, respectively.

We expect subscription revenues for the year ending December 31, 2023 to increase in absolute dollars and increase slightly as a percentage of revenue as we continue to add new customers and existing customers increase their usage of our products compared to the year ended December 31, 2022.

Our expectations for revenues, cost of revenues and operating expenses for the remainder of 2023 are based on the 30-day average of foreign exchange rates for September 30, 2023.

Subscription revenues consist of the following:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Digital workflow products	\$ 1,961	\$ 1,534	28%	\$ 5,587	\$ 4,437	26%
ITOM products	255	208	23%	728	594	23%
Total subscription revenues	<u>\$ 2,216</u>	<u>\$ 1,742</u>	27%	<u>\$ 6,315</u>	<u>\$ 5,031</u>	26%

Our digital workflow products are generally priced on a per user basis and include the Now Platform, IT Service Management, Strategic Portfolio Management (formerly known as IT Business Management), IT Asset Management and Enterprise Asset Management, Security Operations, Integrated Risk Management (formerly known as Governance, Risk and Compliance), ESG Management, HR Service Delivery, Workplace Service Delivery, Legal Service Delivery, Customer Service Management, Field Service Management, Industry Solutions, App Engine, Automation Engine, Platform Privacy and Security, Source-to-Pay Operations (formerly known as Procurement Operations Management), Supplier Lifecycle Operations, Accounts Payable Operations and Impact. Our IT Operations Management (“ITOM”) products are generally priced on a subscription unit basis, which allows us to measure customers’ management of various IT resources, and decreasingly on a per node (physical or virtual server) basis.

Professional services and other revenues decreased by \$17 million and \$55 million during the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, due to a decrease in services and trainings provided to new and existing customers.

We expect professional services and other revenues for the year ending December 31, 2023 to decrease in absolute dollars and to decrease slightly as a percentage of revenue compared to the year ended December 31, 2022. We continue to be focused on deploying our internal professional services organization as a strategic resource and working with our partner ecosystem to contract directly with customers for implementation services delivery.

### Cost of Revenues and Gross Profit Percentage

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Cost of revenues:						
Subscription	\$ 420	\$ 301	40%	\$ 1,163	\$ 863	35%
Professional services and other	76	99	(23%)	242	295	(18%)
Total cost of revenues	<u>\$ 496</u>	<u>\$ 400</u>	24%	<u>\$ 1,405</u>	<u>\$ 1,158</u>	21%
Gross profit (loss) percentage:						
Subscription	81%	83%		82%	83%	
Professional services and other	(6%)	(11%)		(11%)	(8%)	
Total gross profit percentage	78%	78%		79%	78%	
Gross profit	\$ 1,792	\$ 1,431		\$ 5,129	\$ 4,147	

Cost of subscription revenues increased by \$119 million and \$300 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to increased headcount and increased costs to support the growth of our subscription offerings including costs to support customers in regulated markets. Personnel-related costs including stock-based compensation and overhead expenses increased by \$59 million and \$164 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022. Depreciation expense related to infrastructure hardware equipment dedicated for customer use increased by \$29 million and \$74 million and maintenance costs to support the expansion of our data center capacity, including public cloud service costs, increased by \$27 million and \$49 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022.

We expect our cost of subscription revenues for the year ending December 31, 2023 to increase in absolute dollars as we provide subscription services to more customers and increase usage within our customer instances and to increase slightly as a percentage of revenue compared to the year ended December 31, 2022. We will continue to incur incremental costs to attract customers in regulated markets by adopting public cloud offerings as well as increased support for customers impacted by new and evolving data residency requirements. To the extent future acquisitions are consummated, our cost of subscription revenues may increase due to additional non-cash charges associated with the amortization of intangible assets acquired. Our subscription gross profit percentage was 81% and 82% for the three and nine months ended September 30, 2023, respectively, and 83% for each of the three and nine months ended September 30, 2022. We expect our subscription gross profit percentage to decrease slightly for the year ending December 31, 2023 compared to the year ended December 31, 2022.

Cost of professional services and other revenues decreased by \$23 million and \$53 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to a decrease in contracted third-party partners spend and decreased headcount resulting in a decrease in personnel-related costs, including stock-based compensation.

Our professional services and other gross loss percentage improved to 6% for the three months ended September 30, 2023 compared to 11% for the three months ended September 30, 2022, primarily due to a decrease in contracted third-party partners spend and decreased headcount resulting in a decrease in personnel-related costs. Professional services and other gross loss percentage increased to 11% for the nine months ended September 30, 2023 compared to 8% for the nine months ended September 30, 2022, primarily driven by professional services and other revenue declining at a faster rate than personnel-related costs and contracted third-party partners spend. We expect our professional services and other gross loss percentage to remain relatively flat for the year ending December 31, 2023 compared to the year ended December 31, 2022.

### Sales and Marketing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Sales and marketing	\$ 799	\$ 697	15%	\$ 2,454	\$ 2,092	17%
Percentage of revenues	35%	38%		38%	39%	

Sales and marketing expenses increased by \$102 million and \$362 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to increased headcount resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of \$79 million and \$261 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022. Amortization expenses associated with deferred commissions increased by \$20 million and \$70 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, due to an increase in contracts with new customers, expansion and renewal contracts. Other sales and marketing program expenses, which includes branding, costs associated with purchasing advertising, marketing events and market data, increased by \$29 million for the nine months ended September 30, 2023 compared to the same period of the prior year, primarily due to increased program costs and travel for our annual Sales Kickoff.

We expect sales and marketing expenses for the year ending December 31, 2023 to increase in absolute dollars and to decrease slightly as a percentage of revenue compared to the year ended December 31, 2022, as we continue to see leverage from increased sales productivity and marketing efficiencies offset by growth in our international operations in 2023.

### Research and Development

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Research and development	\$ 549	\$ 456	20%	\$ 1,562	\$ 1,314	19%
Percentage of revenues	24%	25%		24%	25%	

R&D expenses increased by \$93 million and \$248 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of \$77 million and \$225 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022. The remaining increase was primarily due to an increase in data center capacity costs and depreciation of infrastructure hardware equipment that is used solely for R&D purposes of \$8 million and \$15 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in the prior year.

We expect R&D expenses for the year ending December 31, 2023 to increase in absolute dollars but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2022, as we continue to improve the existing functionality of our services, develop new applications to fill market needs and enhance our core platform.

### General and Administrative

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
General and administrative	\$ 213	\$ 187	14%	\$ 621	\$ 541	15%
Percentage of revenues	9%	10%		10%	10%	

G&A expenses increased by \$26 million and \$80 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to increased headcount, resulting in an increase in personnel-related costs including stock-based compensation and overhead expenses of \$21 million and \$61 million for the three and nine months ended September 30, 2023, respectively, compared to the same periods in the prior year. Non personnel-related costs and outside services increased by \$15 million for the nine months ended September 30, 2023 compared to the same period in the prior year.

We expect G&A expenses for the year ending December 31, 2023 to increase in absolute dollars but remain relatively flat as a percentage of revenue compared to the year ended December 31, 2022, as we continue to see leverage from continued G&A productivity.

### ***Stock-based Compensation***

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Cost of revenues:						
Subscription	\$ 52	\$ 41	27 %	\$ 148	\$ 116	28 %
Professional services and other	11	17	(35 %)	40	51	(22 %)
Operating expenses:						
Sales and marketing	132	119	11 %	378	337	12 %
Research and development	150	127	18 %	430	368	17 %
General and administrative	68	57	19 %	195	166	17 %
Total stock-based compensation	\$ 413	\$ 361	14 %	\$ 1,191	\$ 1,038	15 %
Percentage of revenues	18%	20%		18%	20%	

Stock-based compensation increased by \$52 million and \$153 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily due to additional grants to current and new employees.

Stock-based compensation is inherently difficult to forecast due to fluctuations in our stock price. Based upon our stock price as of September 30, 2023, we expect stock-based compensation to continue to increase in absolute dollars for the year ending December 31, 2023 as we continue to issue stock-based awards to our employees, but decrease slightly as a percentage of revenue compared to the year ended December 31, 2022. We expect stock-based compensation as a percentage of revenue 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 37% and 36% of total revenues for each of the three and nine months ended September 30, 2023, respectively, and 34% and 35% for each of the three and nine months ended September 30, 2022, respectively.

We primarily transact in certain foreign currencies for sales outside of the United States. The general weakening of the U.S. Dollar relative to certain major foreign currencies (primarily the Euro and British Pound Sterling) had a favorable impact on our revenues for the three months ended September 30, 2023. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three months ended September 30, 2023 at the exchange rates in effect for the three months ended September 30, 2022 rather than the actual exchange rates in effect during the period, our reported subscription revenues would have been \$43 million lower. The impact from foreign currency movements from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 was not material for subscription revenues. The impact from the foreign currency movements from the three and nine months ended September 30, 2022 to the three and nine months ended September 30, 2023 was not material for professional services and other revenues.

In addition, because we primarily transact in several foreign currencies for cost of revenues and operating expenses outside of the United States, the general strengthening of the U.S. Dollar relative to these major foreign currencies had a favorable impact on our sales and marketing and R&D expenses for the nine months ended September 30, 2023. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the nine months ended September 30, 2023 at the exchange rates in effect for the nine months ended September 30, 2022 rather than the actual exchange rates in effect during the period, our reported sales and marketing and R&D expenses would have been \$10 million and \$11 million higher, respectively, for the nine months ended September 30, 2023. The impact from the foreign currency movements from the three months ended September 30, 2022 to the three months ended September 30, 2023 was not material to cost of revenues, sales and marketing, R&D and G&A expenses. The impact from the foreign currency movements from the nine months ended September 30, 2022 to the nine months ended September 30, 2023 was not material to cost of revenues and G&A expenses.

### Interest Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Interest income	\$ 82	\$ 26	215%	\$ 216	\$ 43	NM
Percentage of revenues	4 %	1%		3 %	1%	

NM - Not meaningful

Interest income increased by \$56 million and \$173 million for the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022, primarily driven by an increase in investment income from our managed portfolio resulting from higher portfolio balances and an increase in interest rates.

### Other Expense, net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Interest expense	\$ (6)	\$ (8)	(25%)	\$ (18)	\$ (20)	(10%)
Other	(8)	(7)	14%	(29)	(7)	314%
Other expense, net	\$ (14)	\$ (15)	(7%)	\$ (47)	\$ (27)	74%
Percentage of revenues	(1%)	(1%)		(1%)	(1%)	

Other expense, net decreased by \$1 million for the three months ended September 30, 2023 and increased by \$20 million for the nine months ended September 30, 2023 compared to the same periods in the prior year. The increase in other expense, net for the nine months ended September 30, 2023 was primarily driven by higher foreign exchange loss, unrealized loss on marketable equity securities and impairment of non-marketable equity investments.

To mitigate our risks associated with fluctuations in foreign currency exchange rates, we enter into foreign currency forward 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. The gains (losses) recognized for these foreign currency forward contracts in other expense, net were immaterial for each of the three and nine months ended September 30, 2023 and 2022.

### Provision for (benefit from) Income Taxes

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	% Change	2023	2022	% Change
	(dollars in millions)			(dollars in millions)		
Income before income taxes	\$ 299	\$ 102	193%	\$ 661	\$ 216	206%
Provision for (benefit from) income taxes	\$ 57	\$ 22	159%	\$ (775)	\$ 41	NM
Effective tax rate	19%	22%		(117%)	19%	

NM - Not meaningful

The income tax provision was \$57 million for the three months ended September 30, 2023, and our income tax benefit was \$775 million for the nine months ended September 30, 2023. The income tax provision was primarily attributable to the mix of earnings and losses in countries with differing statutory tax rates, tax deductible R&D costs and the valuation allowance release through the effective tax rate. The income tax benefit was primarily attributable to the release of the valuation allowance of certain U.S. federal and state deferred tax assets. We regularly assess the need for a valuation allowance against our deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. As of June 30, 2023, we achieved cumulative U.S. income during the prior twelve quarters when considering pre-tax income adjusted for permanent differences and other comprehensive losses. Based on all available positive and negative evidence, having demonstrated sustained profitability which is objective and verifiable, and taking into account anticipated future earnings, we concluded it is more likely than not that our U.S. federal and state deferred tax assets will be realizable, with the exception of California. We continue to maintain a valuation allowance against our California deferred tax assets due to the uncertainty regarding realizability of these deferred tax assets as they have not met the “more likely than not” realization criteria, particularly as we expect R&D tax credit generation to exceed our ability to use the credits in future years. When a change in valuation allowance is recognized during an interim period, the change in valuation allowance resulting from current year income is included in the annual effective tax rate and the release of valuation allowance supported by projections of future taxable income is recorded as a discrete tax benefit in the interim period. Of the \$1.2 billion valuation allowance as of December 31, 2022, we released \$843 million as a discrete tax benefit and \$142 million as part of the effective tax rate during the nine months ended September 30, 2023. \$65 million of the valuation allowance will be released during the fourth quarter of 2023, and we will continue to maintain a valuation allowance of \$177 million against our California deferred tax assets. We will continue to monitor the need for a valuation allowance against our deferred tax assets on a quarterly basis.

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

### Liquidity and Capital Resources

We generate cash inflows from operations primarily from selling subscription services which are generally paid in advance of provisioning services, and cash outflows to develop new services and core technologies that further enhance the Now Platform, engage our customer and enhance their experience, and enable and transform our business operations. Subscription services arrangements typically have a three-year duration, and we have experienced a renewal rate of 98% over the last three years. Cash outflows from operations are principally comprised of the salaries, bonuses, commissions and benefits for our workforce; licenses and services arrangements that are integral to our business operations and data centers; and operating lease arrangements that underlie our facilities. We have generated positive operating cash flows for more than ten years as we continue to grow our business in pursuit of our business strategy, and we expect to grow our business and generate positive cash flows from operations during 2023. When assessing sources of liquidity, we also include cash and cash equivalents, short-term investments and long-term investments totaling \$7 billion as of September 30, 2023.

Our working capital requirements are principally comprised of non-contract workforce salaries, bonuses, commissions and benefits and, to a lesser extent, cancellable and non-cancellable licenses and services arrangements that are integral to our business operations and operating lease obligations. Operating lease obligations totaling \$919 million are principally associated with leased facilities and have varying maturities with \$487 million due over the next five years.



We may repurchase our shares of common stock in the open market, in privately negotiated transactions or by other means, with the objective to return value to our stockholders and manage the dilution from future employee equity grants and employee stock purchase programs. In May 2023, our board of directors authorized a program to repurchase up to \$1.5 billion of our common stock. During the quarter ended September 30, 2023, the Company repurchased 0.5 million shares of its common stock for \$282 million. All repurchases were made in open market transactions. Repurchases of common stock are recognized as treasury stock and held for future issuance. As of September 30, 2023, approximately \$1.2 billion of the originally authorized amount under the Share Repurchase Program remained available for future repurchases.

To grow our business, we also invest in capital and other resources to expand our data centers and enable our workforce, and we acquire technology and businesses to supplement our technology portfolio. Our capital expenditures are typically under cancellable arrangements primarily used to support the installed base and growth of our hosted business. We have also issued long-term debt to finance our business. In August 2020, we issued 1.40% fixed rate ten-year notes with an aggregate principal amount of \$1.5 billion due on September 1, 2030 (the “2030 Notes”).

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

	Nine Months Ended September 30,	
	2023	2022
	(dollars in millions)	
Net cash provided by operating activities	\$ 1,793	\$ 1,561
Net cash used in investing activities	\$ (1,723)	\$ (1,709)
Net cash used in financing activities	\$ (422)	\$ (269)
Net decrease in cash, cash equivalents and restricted cash	\$ (356)	\$ (478)

### ***Operating Activities***

Net cash provided by operating activities was \$1,793 million for the nine months ended September 30, 2023 compared to \$1,561 million for the nine months ended September 30, 2022. The net increase in operating cash flows was primarily due to higher collections driven by revenue growth.

### ***Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2023 was \$1,723 million compared to \$1,709 million for the nine months ended September 30, 2022. The net increase in cash used in investing activities was primarily due to a \$225 million increase in business combinations, a \$27 million increase in purchases of property and equipment, partially offset by a \$174 million decrease in net purchases of investments and a \$82 million decrease in purchases of non-marketable investments.

### ***Financing Activities***

Net cash used in financing activities was \$422 million for the nine months ended September 30, 2023 compared to net cash used in financing activities of \$269 million for the nine months ended September 30, 2022. The increase in cash used in financing activities was due to repurchases of common stock of \$282 million, partially offset by a \$94 million decrease related to repayments of convertible senior notes attributable to principal, a \$19 million decrease in taxes paid related to net share settlement of equity awards and a \$16 million increase in proceeds from employee stock plans.

## **Critical Accounting Policies and Significant Judgments and Estimates**

There have been no significant changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on January 31, 2023.

## **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, 2022, which was filed with the SEC on January 31, 2023.

## **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 or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required or necessary disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of September 30, 2023, that our disclosure controls and procedures were effective at the reasonable assurance level for this purpose.

### **Changes in Internal Control over Financial Reporting**

There were no changes to our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2023 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Investing in our securities involves risks. In addition to the risk factor below and information set forth in this Form 10-Q, you should carefully consider the risks and uncertainties described under the section “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on January 31, 2023 and Part II, Item 1A of our Quarterly Report on Form 10-Q filed with the SEC on July 27, 2023, which could materially and adversely affect our business, financial condition or results of operations. Our business could be harmed by any of these risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial. Our stock price could decline due to any of these risks.

#### Risks Related to the Operation of Our Business

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

Our operations involve the storage, transmission and processing of our customers’ confidential, proprietary and sensitive data, which may include personally identifiable information, protected health information, financial information and, in some cases, government information. While we have security measures and a data governance framework in place designed to protect customer information and prevent data loss, these protective mechanisms we have implemented may not be effective at preventing material breaches caused by intentional or unintentional action or inaction by employees or third parties, which may result in the unauthorized access or release of our instances and ultimately our or our customers’ data, IP and other confidential business information. Third parties have attempted to fraudulently induce employees, contractors, or users to disclose information or to gain access to our or our customers’ data, and we have been the target of increasingly sophisticated email and text message scams that attempt to acquire personal information or company assets. Further, we have experienced an increase in the number and sophistication of cyberattacks and security challenges as the growing number of employees, vendors and other third parties that remotely access our systems increase our exposure to attack.

Computer malware, ransomware, viruses, hacking, phishing and denial of service attacks by third parties have become more prevalent in our industry, and similar malicious attacks have been made against our and our third-party service providers’ systems in the past and may occur again in the future. Our employees have fallen victim to phishing attacks in the past and may again in the future. The frequency and sophistication of these attacks have increased, and it appears that cyber crimes and cyber criminal networks, some of which may be state-supported, have substantial resources and may target U.S. enterprises or our customers and their use of our products.

In addition, we have established extensive development and testing environments for our engineers developing new products and features. Security protocols in those environments have necessarily been less rigorous than in environments housing customer data, but a vulnerability or security defect arising out of our development and testing environment could become incorporated in code imported to our environments housing customer data. Similarly, in the unique circumstances where customer data may be utilized in developer environments for testing or learning, that data may be at greater risk. Because techniques used to sabotage, obtain unauthorized access to systems or prohibit authorized access to systems change frequently and generally may not be detected until successfully launched against a target, we have been and may continue to be unable to anticipate these techniques or to implement adequate preventative measures. This has included and may continue to include underlying infiltration of pre-existing systems, including those of our third-party service providers or customers, perpetrated by more sophisticated or state-supported attackers, including foreign cybersecurity attacks on U.S. technology companies and retaliatory cybersecurity attacks stemming from the Russian invasion of Ukraine or other geopolitical tensions. It may also include exploitation of vulnerabilities in third party or open source software code that may be incorporated into our own or our customers’ systems, such as the vulnerability in the Java logging library known as “log4j” identified in late 2021 that affected our industry. The occurrence of these and other more sophisticated or state-supported attack campaigns may increase as geopolitical tensions and intermittent warfare continue or escalate outside of the U.S. For example, due to the Russia-Ukraine conflict, conflict in the Middle East, rising tensions between the U.S. and North Korea and rising tensions with China, we and our customers, third-party vendors and service providers are subject to a heightened risk of cybersecurity attacks, phishing

attacks, viruses, malware, ransomware, hacking or similar breaches from state-supported actors, including attacks that could materially disrupt our systems and operations, supply chain, and ability to make available or sell our products and services.

We devote significant financial and personnel resources to implement and maintain security measures while meeting customer expectations as to the performance of our systems; however, as cybersecurity threats develop and grow more complex and sophisticated over time, such as in connection with geopolitical warfare, we will continue to make significant further investments to protect data and infrastructure, but a residual risk may remain despite our preventative efforts. A security breach suffered by us or our third-party service providers, an attack against our service availability or unauthorized access or loss of data could result in a disruption to our service, litigation, service level agreement claims, indemnification and other contractual obligations, regulatory investigations, government fines and penalties, reputational damage, loss of sales and customers, mitigation and remediation expenses and other significant costs and liabilities. In addition, we may incur significant economic and operational consequences in order to appropriately assess and respond to security incidents and to implement appropriate safeguards to protect against future incidents. We also cannot be certain that insurance coverage will continue to be available on acceptable terms or in sufficient amounts to cover the potentially significant losses that may result from a security incident or an insurer will not deny coverage as to any future claim.

Additionally, as we increase reliance on third-party and public cloud infrastructure, we depend in part on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of data. However, our ability to monitor our third-party service providers' data security is limited. Employee error or malfeasance in configuring, maintaining, and using services offered by third-party providers may affect our ability to monitor and secure such services.

While our software is delivered with certain preset configurations, we empower our customers to configure the Now Platform in the manner that best suits their business needs. Further, in most instances, our customers are responsible for administering access to the data held in their particular instance for their employees and service providers. In configuring our platform, ServiceNow employees and customers have made errors in the past and may do so again in the future. We are aware that, on occasion, our customers and ServiceNow have configured certain settings on our platform, or retained preset configurations, in a manner not aligned with their preferred security levels, which can result in, and has resulted in, information being made more widely accessible than intended. Such misconfigurations can be, and have been, identified publicly, increasing the risk of data being exposed unintentionally. We have worked and will continue to work closely with our customers to help them evaluate their security configurations, including providing guidance and taking action designed to help customers align configuration settings with their business needs. In addition, as needed, we have evaluated and modified our own internal configurations, as well as the configurations of the services provided to us by third parties, and will continue to do so. While we offer tools and support, customers are not required to utilize them and may experience a data exposure or suffer a cybersecurity attack on their own systems, unrelated to our own, and allow a malicious actor access to the customer's information held on our platform. Even if such a breach is unrelated to our security programs or practices, such breach could cause us reputational harm and require us to incur significant economic and operational consequences in order to adequately assess and respond to the breach, including further protecting our customers from their own vulnerabilities, and to implement appropriate safeguards to protect against future breaches. In addition, any misconfiguration or misuse of our software that results in unauthorized access to, or the misuse, loss or destruction of, our and our customers' data or in a violation of our terms or applicable law may result in reputational harm or liability. Similar risks apply to a breach that results from misconfiguration or misuse of our providers' services.

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

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

Share repurchases of the Company's common stock for the three months ended September 30, 2023 were as follows:

### Issuer Purchases of Equity Securities

<i>Period</i>	<i>Total Number of Shares Purchased (in thousands)</i>	<i>Average Price Paid Per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Program (in thousands)</i>	<i>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program<sup>(1)</sup> (in billions)</i>
July 1 - 31	21	\$ 579.49	21	\$ 1.49
August 1 - 31	479	562.40	479	1.22
September 1 - 30	—	—	—	1.22
Third Quarter 2023	500	\$ 563.11	500	\$ 1.22

(1) On May 16, 2023, the Board of Directors authorized a program to repurchase up to \$1.5 billion of the Company's common stock.

## ITEM 5. OTHER INFORMATION

### Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2023, the following directors and Section 16 officers adopted trading arrangements intended to satisfy the affirmative defense of Rule 10b5-1(c):

- Gina Mastantuono, our Chief Financial Officer, adopted a trading plan on July 28, 2023. The plan, which expires May 24, 2024, provides for the sale of (i) 317 shares of our common stock and (ii) 100% of the (net) shares resulting from the vesting of 8,019 additional (gross) shares of our common stock during the plan period (net shares are net of tax withholding).
- William R. McDermott, our Chief Executive Officer, adopted a trading plan on August 31, 2023. The plan, which expires February 18, 2025, provides for the sale of (i) 30,489 shares of our common stock and (ii) 100% of the (net) shares resulting from the vesting of 9,986 additional (gross) shares of our common stock during the plan period (net shares are net of tax withholding).
- Paul E. Chamberlain, a member of our board of directors, adopted a trading plan on August 21, 2023. The plan, which expires September 3, 2024, provides for the sale of 540 shares of our common stock.

**ITEM 6. EXHIBITS**
**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Document</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
<a href="#">3.1</a>	<a href="#">Restated Certificate of Incorporation of Registrant, as amended</a>	8-K	001-35580	3.1	6/9/2021	
<a href="#">3.2</a>	<a href="#">Restated Bylaws of Registrant</a>	8-K	001-35580	3.2	6/9/2021	
<a href="#">10.1</a> *	<a href="#">Temporary Relocation dated July 28, 2023, by and between the Registrant and Chirantan J. Desai</a>					X
<a href="#">31.1</a>	<a href="#">Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
<a href="#">31.2</a>	<a href="#">Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002</a>					X
<a href="#">32.1</a> **	<a href="#">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</a>					X
<a href="#">32.2</a> **	<a href="#">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</a>					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 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.

<p>Date: October 25, 2023</p>	<p><b>SERVICENOW, INC.</b></p> <p>By: <u>/s/ William R. McDermott</u> William R. McDermott <i>Chief Executive Officer</i> (Principal Executive Officer)</p>
<p>Date: October 25, 2023</p>	<p>By: <u>/s/ Gina Mastantuono</u> Gina Mastantuono <i>Chief Financial Officer</i> (Principal Financial Officer)</p>
<p>Date: October 25, 2023</p>	<p>By: <u>/s/ Kevin McBride</u> Kevin McBride <i>Chief Accounting Officer</i> (Principal Accounting Officer)</p>

July 25, 2023

Dear CJ,

### Temporary Relocation

On behalf of ServiceNow, Inc. (the “Company”), we are pleased to offer you the opportunity of a temporary relocation (the “Relocation”) from California (your “Home State”) to New York (your “Host State”), effective from 8/1/23 to 7/31/24 (the “Term”). All Company policies and the terms of your employment with the Company will remain applicable to you throughout your Relocation, and this letter of understanding (“Letter”) outlines the additional terms and conditions of your Relocation.

#### **Relocation Benefits**

ServiceNow will assist you with the following benefits:

- **Housing Allowance:** During the Term, the Company will provide you with a monthly rent benefit of \$32,000 (net) to cover the lease at . Rent will be paid on your behalf directly to the landlord via PLUS Relocation Company.

During the Term, the Company also agrees to provide reimbursement of the following monthly housing utilities and annual liability insurance expenses:

- Water, and electricity (hot water & gas will be paid by landlord)
- Garbage/sewage charges
- Basic cable
- Standard internet
- Liability & renters insurance

Proof of payment is required for all expense reimbursements.

- **Security Deposit:** The Company has paid the required \$32,000 on your behalf to secure the housing lease agreement. Since the lease is in your name, the security deposit will be returned to you when you vacate the property, and you agree to refund the security deposit in full back to the Company. You are required to review and observe the terms and conditions of the lease and will be responsible for the condition of the housing, fixtures, and any furniture. At the end of the lease, any amounts deducted from the housing deposit for the wear and tear of the leased house, would be your personal responsibility to cover.
- **Tax Assistance:** If any of the benefits set out in this Letter are deemed to be taxable based on applicable tax laws, the Company will provide tax assistance to offset the tax liabilities to the applicable tax authorities in respect of such allowance benefits.
- **Tax Protection:** The Company will tax protect your “Stay-At-Home Income” only (as defined below) to help ensure that this Relocation work arrangement does not create an extra tax burden due to the different state tax treatment in your Host State. Your income and social security tax burden in respect of the foregoing will remain at a similar level as if you were employed solely in your Home State. You will be responsible to pay what you would have paid in taxes had you stayed in the Home State. The Company will reimburse any Excess Tax Liability Payment you have incurred in the Home State and Host State.

After finalization of your Home State and Host State personal income tax returns, the Company’s global tax partners, Ernst & Young (“EY”), will prepare a separate tax protection calculation on a stay-at-home basis to determine whether there is any excess tax liability payment payable to you, on your personal and social taxes.

Following completion of the above calculation, the Company will reimburse any Excess Tax Liability Payment (as defined below) you have incurred, if any, on a fully grossed-up basis in relation to the Term period. Any amounts payable by the Company or by you must be settled within 30 days of the completion of the tax protection analysis.

This arrangement could extend beyond the Term Period, if subsequent tax year(s) are impacted by trailing liability reporting.



**“Stay-At-Home Income”** shall mean: Your base salary, earned commissions, and any equity income upon initial vesting event but not upon subsequent sale. It does not include any personal income outside of ServiceNow compensation (e.g., capital gains)

**“Excess Tax Liability Payment”** shall mean: Any additional tax payment that you may have incurred on your personal tax returns (as compared to your stay-at-home tax liability, had you not been on the Term).

- **Trailing Liability Reporting:** The Company agrees to tax protect you for trailing liability taxes related only to your ServiceNow equity income (such as RSU and ESPP) in subsequent tax year(s) in which a New York State tax may be incurred in direct relation to the Relocation.
- **Tax Support:** In relation to the Term relocation, the Company will provide you with the services of our global tax service provider, Ernst & Young, to assist with preparation of your tax returns for the year of transfer and any subsequent tax years authorized for trailing liabilities in accordance with the above will be agreed between you and the Company on an annual basis.

#### **Resignation and Termination of Your Employment During Your Relocation**

If, at any time during your Relocation, your employment with the Company is terminated without “Cause” (as defined in your Employment Agreement dated October 31, 2017) or you resign for “Good Reason” (as defined in your Employment Agreement dated October 31, 2017), your eligibility for the relocation benefits set forth in this Letter will cease on the date of your termination. In addition, you will receive the tax protection and tax support described above.

Alternatively, if you resign without Good Reason or your employment is terminated for Cause at any time during your Relocation, your eligibility for the relocation benefits set forth in this Letter will cease on the date of your termination. Any and all expenses you incur subsequent to your date of termination will be your responsibility alone, and the Company will not be responsible for costs you incur in departing from or remaining in the Host State. Further, the provision of tax protection and tax support will remain in the sole discretion of the Company.

In addition, if you resign or your employment is terminated for Cause at any time during your Relocation, you will be required to repay the Company the total cost of the relocation assistance incurred by the Company on your behalf (including, for the avoidance of doubt, any gross up payments made for tax protection purposes), save that your repayment obligation will be reduced by 1/12th for each month of service you complete following the start date of your Relocation. Thereafter, no repayment shall be required. You agree to repay all amounts due to the Company within ten (10) calendar days following your termination date and you hereby authorize the Company to withhold such amount from any amounts owed to you by the Company, to the extent legally permitted. Details of the total cost will be provided to you in due course, once available. You further agree to execute any documents and/or agreements necessary at the time the reimbursement is triggered to authorize the Company to withhold such amount from any amounts owed to you by the Company, to the extent legally permitted.

#### **At-Will Employment**

This Letter is not an employment offer or employment contract or a guarantee of continued employment. Your employment with the Company remains “at-will” and the terms of your employment with the Company, including your At-Will Employment, Confidential Information and Invention Assignment Agreement, and Arbitration Agreement will remain in effect throughout your Relocation.

To indicate your acceptance of the benefits outlined above as well as your repayment obligations, please sign below and return this letter to the **Global Mobility Team** no later than July 31, 2023. Should you have any questions or concerns, please do not hesitate to contact at .

Our best wishes for your success in your new location!

Sincerely,

/s/ Jacqui Canney  
Jacqui Canney  
CHRO - On Behalf of ServiceNow – AMS

#### **ACCEPTED AND AGREED:**

By : /s/ CJ Desai Date : July 28, 2023  
CJ Desai

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

I, William R. McDermott, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceNow, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2023

/s/ William R. McDermott

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William R. McDermott  
*Chief Executive Officer*  
(Principal Executive Officer)

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

I, Gina Mastantuono, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ServiceNow, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2023

/s/ Gina Mastantuono

Gina Mastantuono  
Chief Financial Officer  
(Principal Financial Officer)

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

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

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2023

/s/ William R. McDermott

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William R. McDermott  
*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.

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

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

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2023

/s/ Gina Mastantuono

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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.