UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

Commission File Number: 001-35580

ServiceNow, Inc.

(Exact name of registrant as specified in its charter)

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

ServiceNow, Inc.
2225 Lawson Lane
Santa Clara, California 95054
(408) 501-8550
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ☐

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

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

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

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

As of September 30, 2017, there were approximately 172.7 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 thousands)
(unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 1,104,871	$ 401,238
Short-term investments	567,026	498,124
Accounts receivable, net	291,903	322,757
Current portion of deferred commissions	96,811	76,780
Prepaid expenses and other current assets	66,881	43,636
Total current assets	2,127,492	1,342,535
Deferred commissions, less current portion	69,041	61,990
Long-term investments	424,858	262,658
Property and equipment, net	231,304	181,620
Intangible assets, net	68,970	65,854
Goodwill	108,097	82,534
Other assets	39,753	36,576
Total assets	$ 3,069,515	$ 2,033,767
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 20,752	$ 38,080
Accrued expenses and other current liabilities	177,553	171,636
Current portion of deferred revenue	1,082,346	861,782
Total current liabilities	1,280,651	1,071,498
Deferred revenue, less current portion	42,298	33,319
Convertible senior notes, net	1,156,629	507,812
Other long-term liabilities	38,546	34,177
Total liabilities	2,518,124	1,646,806
Stockholders' equity:		
Common stock	173	167
Additional paid-in capital	1,670,339	1,405,317
Accumulated other comprehensive loss	(408)	(21,133)
Accumulated deficit	(1,118,713)	(997,390)
Total stockholders' equity	551,391	386,961
Total liabilities and stockholders' equity	$ 3,069,515	$ 2,033,767

See accompanying notes to condensed consolidated financial statements

SERVICENOW, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Subscription	$ 455,421	$ 318,934	$ 1,242,563	$ 877,035
Professional services and other	42,749	38,722	144,093	127,812
Total revenues	498,170	357,656	1,386,656	1,004,847
Cost of revenues[1]:				
Subscription	81,878	61,566	228,046	170,707
Professional services and other	45,402	41,271	137,366	123,039
Total cost of revenues	127,280	102,837	365,412	293,746
Gross profit	370,890	254,819	1,021,244	711,101
Operating expenses[1]:				
Sales and marketing	227,015	166,491	686,325	511,607
Research and development	98,465	75,018	272,959	211,306
General and administrative	52,465	40,085	150,242	117,393
Legal settlements	—	—	—	270,000
Total operating expenses	377,945	281,594	1,109,526	1,110,306
Loss from operations	(7,055)	(26,775)	(88,282)	(399,205)
Interest expense	(16,566)	(8,389)	(36,581)	(24,746)
Interest income and other income (expense), net	853	1,783	739	4,745
Loss before income taxes	(22,768)	(33,381)	(124,124)	(419,206)
Provision for (benefit from) income taxes	1,420	2,877	(2,801)	9
Net loss	$ (24,188)	$ (36,258)	$ (121,323)	$ (419,215)
Net loss per share - basic and diluted	$ (0.14)	$ (0.22)	$ (0.71)	$ (2.56)
Weighted-average shares used to compute net loss per share - basic and diluted	171,883,190	165,378,836	170,359,717	163,767,329
Other comprehensive income (loss):				
Foreign currency translation adjustments	$ 3,389	$ 203	$ 15,482	$ (1,106)
Unrealized gain (loss) on investments, net of tax	(2,864)	(615)	5,243	1,523
Other comprehensive income (loss), net of tax	525	(412)	20,725	417
Comprehensive loss	$ (23,663)	$ (36,670)	$ (100,598)	$ (418,798)

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenues:				
Subscription	$ 8,980	$ 7,140	$ 25,860	$ 20,698
Professional services and other	7,056	7,150	21,622	20,045
Sales and marketing	43,962	31,898	124,650	95,757
Research and development	23,092	21,376	67,624	62,956
General and administrative	17,352	13,523	48,695	35,004

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$ (121,323)	$ (419,215)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	81,808	59,716
Amortization of premiums on investments	2,508	3,745
Amortization of deferred commissions	80,251	57,742
Amortization of debt discount and issuance costs	36,581	24,746
Stock-based compensation	288,451	234,460
Deferred income tax	(6,055)	(5,095)
Other	(4,062)	(857)
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	42,341	(15,761)
Deferred commissions	(102,348)	(79,190)
Prepaid expenses and other assets	(26,866)	(11,733)
Accounts payable	(11,088)	(8,625)
Deferred revenue	193,594	151,019
Accrued expenses and other liabilities	4,247	36,282
Net cash provided by operating activities	458,039	27,234
Cash flows from investing activities:		
Purchases of property and equipment	(115,856)	(84,112)
Business combinations, net of cash acquired	(26,537)	(34,297)
Purchases of other intangibles	(6,170)	(10,750)
Purchases of investments	(641,666)	(434,397)
Purchases of strategic investments	(4,000)	—
Sales of investments	77,968	266,288
Maturities of investments	350,597	218,452
Restricted cash	(739)	(322)
Net cash used in investing activities	(366,403)	(79,138)
Cash flows from financing activities:		
Net proceeds from borrowings on convertible senior notes	772,127	—
Proceeds from issuance of warrants	54,071	—
Purchases of convertible note hedges	(128,017)	—
Repurchases and retirement of common stock	(55,000)	—
Proceeds from employee stock plans	76,748	55,063
Taxes paid related to net share settlement of equity awards	(131,130)	(88,567)
Payments on financing obligations	(2,681)	(1,361)
Net cash provided by (used in) financing activities	586,118	(34,865)
Foreign currency effect on cash and cash equivalents	25,879	(469)
Net increase (decrease) in cash and cash equivalents	703,633	(87,238)
Cash and cash equivalents at beginning of period	401,238	412,305
Cash and cash equivalents at end of period	$ 1,104,871	$ 325,067
Non-cash investing and financing activities:		
Property and equipment included in accounts payable and accrued expenses	$ 9,321	$ 9,691

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 is a leading provider of enterprise cloud computing solutions that define, structure, manage and automate services for global enterprises. Our mission is to help our customers improve service levels and reduce costs while scaling and automating their businesses. We typically deliver our software via the Internet as a service, through an easy-to-use, consumer product-like interface, which means it can be easily configured and rapidly deployed. In a minority of cases, we deploy our software on-premises at a customer data center to support a customer's unique regulatory or security requirements.

(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 (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for fair statement of results for the interim periods presented have been included. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2016 is derived from audited financial statements as of that date; 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, 2016, which was filed with the SEC on February 28, 2017.

Principles of Consolidation

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

Prior Period Reclassification

Certain reclassifications of prior period amounts have been made in our condensed consolidated statements of cash flow and Note 16 to conform to the current period presentation.

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, the best estimate of selling price of the deliverables included in multiple elements revenue arrangements, the fair value of assets acquired and liabilities assumed for business combinations, stock-based compensation expenses, the assessment of the useful life and recoverability of our property and equipment, goodwill and identifiable intangible assets, future taxable income and legal contingencies. Actual results could differ from those estimates.

New Accounting Pronouncements Pending Adoption

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This new standard is effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20)—Premium Amortization on Purchased Callable Debt Securities," which shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. This new standard is effective for our interim and annual periods beginning January 1, 2019, and early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates Step 2 from the goodwill impairment test. This standard requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. In addition, this new standard eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. This new standard is effective for our interim and annual periods beginning January 1, 2020, and early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This new standard is required to be applied on a prospective basis, effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. The actual impact upon adoption of this new standard will depend upon the nature of our future acquisitions, if any.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This new standard is effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which includes a revision of the accounting for the income tax consequences of intra-entity transfers of assets other than inventory to reduce the complexity in accounting standards. This new standard is effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. The new standard is required to be applied on a modified retrospective basis through a cumulative effect adjustment directly to retained earnings as of the beginning of the period of adoption. While we believe the current impact upon the adoption of this standard on our consolidated financial statements will be immaterial, the actual impact will largely depend on future intra-entity asset transfers, if any.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance on eight specific cash flow issues. Among these issues, this standard requires, at the settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowings, the portion of the cash payment attributable to the accreted interest related to the debt discount to be classified as cash flows for operating activities, and the portion of the cash payments attributable to the principal to be classified as cash outflows for financing activities. This new standard is effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. We currently expect to settle $575.0 million relating to the principal amount of our 0% convertible senior notes due November 1, 2018 in cash upon maturity. At that time, we expect to classify approximately $155.3 million of debt discount attributable to the difference between the 0% coupon interest rate and the 6.5% effective interest rate as an operating cash outflow in our consolidated statements of cash flows. The remaining $419.7 million will be presented as a financing cash outflow in our consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. This new standard is effective for our interim and annual periods beginning January 1, 2020. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires lessees to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets, and to recognize on the income statement the expenses in a manner similar to current practice. This new standard, including related amendments recently issued by the FASB, is effective for our interim and annual periods beginning January 1, 2019, and early adoption is permitted. While we are currently evaluating the impact of the adoption of this standard on our consolidated financial statements, we currently anticipate that the adoption of this standard will have a material impact on our consolidated balance sheets given that we had operating lease commitments of approximately $352 million as of September 30, 2017. However, we do not anticipate that the adoption of this standard will have a material impact on our consolidated statements of comprehensive loss since the expense recognition under this new standard will be similar to current practice.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, and requires equity securities to be measured at fair value with changes in fair value recognized through net income. This new standard allows a measurement alternative for equity investments that do not have readily determinable fair values to be measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This new standard is effective for our interim and annual periods beginning January 1, 2018, and will be adopted by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with prospective adoption of the amendments related to equity securities without readily determinable fair values existing as of the date of adoption. While we are currently evaluating the impact of the adoption of this standard on our consolidated financial statements, we preliminarily expect the adoption of this standard to impact our strategic investments and our marketable equity securities, and plan to elect the measurement alternative for equity investments that do not have readily determinable fair values.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." Under this new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, this standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations. This new standard is effective for our interim and annual periods beginning January 1, 2018.

The Topic 606 guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective method). We currently anticipate adopting the standard using the full retrospective method to restate each prior reporting period presented.

Given the scope of work required to implement the recognition and disclosure requirements under the Topic 606 standard, we began our assessment process in 2014 and have since made significant progress, including the identification and on-going implementation of necessary changes to our policies, processes, systems and controls.

We do not expect the Topic 606 standard to have a material impact on the timing of revenue recognition related to our cloud-based subscription offerings. However, we expect this new standard to have a material impact on the timing of revenue and expense recognition for our contracts related to on-premises offerings, in which we grant customers the right to deploy our software on the customer’s own servers, without significant penalty. Under this new standard, the requirement to have vendor specific objective evidence (VSOE) for undelivered elements is eliminated. As such, we may be required to recognize as revenue a portion of the sales price upon delivery of the software, compared to the current practice of recognizing the entire sales price ratably over an estimated subscription period due to the lack of VSOE. To the extent the amounts recognized as revenue have not been billed, the accrued revenue will be recorded as unbilled receivables on our consolidated balance sheets. We currently believe our total revenues reported for the year ended December 31, 2016 would have increased by approximately $10 to $15 million on a pro forma basis if the new standard had been applied for the entire 2016 fiscal year starting on January 1, 2016.

In addition, we expect the Topic 606 standard to change the way we account for commissions paid on both our on-premises offerings and our cloud-based subscription offerings. Our current practice is to defer only direct and incremental commission costs to obtain a contract and amortize those costs over the contract term for both our on-premises offerings and our cloud-based subscription offerings. Under this new standard, we will defer all incremental commission costs to obtain customer contracts, including indirect costs that are not tied to a specific contract, for both our on-premises offerings and our cloud-based subscription offerings. Commissions allocated to the software element of our on-premises offerings, which are delivered up front, will be expensed immediately under this new standard, while commissions allocated to the support element of our on-premises offerings as well as commissions paid on our cloud-based subscription offerings, which are delivered over time, will be amortized over an expected period of benefit, which we have determined to be approximately five years. As a result, we currently expect the deferred commissions asset to increase and the related amortization expense in each reporting period to decrease under this new standard. The aggregate impact resulting from changes in the way we account for commission expense for both our cloud-based subscription offerings and our on-premises offerings would have reduced our sales and marketing expenses by approximately $20 to $25 million on a pro forma basis for the year ended December 31, 2016 if the new standard had been applied for the entire 2016 fiscal year starting on January 1, 2016.

We are continuing to evaluate the impact of the adoption of this standard on our consolidated financial statements, including the tax effects related to the revenue and commission adjustments discussed above and the increased disclosure requirements on our footnotes. Our preliminary assessments are subject to change.

(3) Investments

Marketable Securities

The following is a summary of our available-for-sale investment securities, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheets (in thousands):

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 52,596	$ —	$ —	$ 52,596
Corporate notes and bonds	775,622	126	(1,064)	774,684
Certificates of deposit	38,288	—	—	38,288
U.S. government agency securities	108,587	—	(209)	108,378
Marketable equity securities	10,000	7,938	—	17,938
Total available-for-sale securities	$ 985,093	$ 8,064	$ (1,273)	$ 991,884

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$ 56,839	$ —	$ —	$ 56,839
Corporate notes and bonds	628,054	91	(1,590)	626,555
Certificates of deposit	35,355	—	—	35,355
U.S. government agency securities	42,088	7	(62)	42,033
Total available-for-sale securities	$ 762,336	$ 98	$ (1,652)	$ 760,782

As of September 30, 2017, the contractual maturities of our available-for-sale investment securities, excluding marketable equity securities and those securities classified within cash and cash equivalents on the condensed consolidated balance sheets, did not exceed 24 months. The fair values of these securities, by remaining contractual maturity, are as follows (in thousands):

	September 30, 2017
Due in 1 year or less	$ 549,088
Due in 1 to 2 years	424,858
Total	$ 973,946

The following table shows the fair values and the gross unrealized losses of our available-for-sale investment securities, classified by the length of time that the securities have been in a continuous unrealized loss position, and aggregated by investment types, excluding those securities classified within cash and cash equivalents on the condensed consolidated balance sheets (in thousands):

	September 30, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$ 499,576	$ (822)	$ 114,109	$ (242)	$ 613,685	$ (1,064)
U.S. government agency securities	91,901	(185)	8,977	(24)	100,878	(209)
Total	$ 591,477	$ (1,007)	$ 123,086	$ (266)	$ 714,563	$ (1,273)

	December 31, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	$ 492,503	$ (1,530)	$ 47,940	$ (60)	$ 540,443	$ (1,590)
U.S. government agency securities	30,033	(62)	—	—	30,033	(62)
Total	$ 522,536	$ (1,592)	$ 47,940	$ (60)	$ 570,476	$ (1,652)

There were no impairments considered "other-than-temporary" as it is more likely than not we will hold the securities until maturity or a recovery of the cost basis.

Strategic Investments

Our strategic investments consist of debt and non-marketable equity investments in privately-held companies. Debt investments in privately-held companies are classified as available-for-sale and are recorded at their estimated fair value with changes in fair value recorded through accumulated other comprehensive income, while non-marketable equity securities are recorded at cost. We have not recorded any impairment charges for any of our investments in privately-held companies. The total amount of debt and equity investments in privately-held companies included in other assets on the condensed consolidated balance sheets was $5.0 million and $11.0 million as of September 30, 2017 and December 31, 2016, respectively. During the nine months ended September 30, 2017, we reclassified $10.0 million of non-marketable equity securities (at cost) to short-term investments on our condensed consolidated balance sheets due to an initial public offering by the investee, and recorded an unrealized gain of $7.9 million within other comprehensive income in our consolidated statements of comprehensive loss. During the nine months ended September 30, 2017, we also acquired an additional $4.0 million in strategic investments. The fair value of our debt investments in privately-held companies included within our strategic investments is $1.5 million and $0.5 million as of September 30, 2017 and December 31, 2016, respectively. These investments are recorded at fair value using significant unobservable inputs or data in an inactive market and the valuation requires our judgment due to the absence of quoted prices in active markets and inherent lack of liquidity and are categorized accordingly as Level 3 in 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 at September 30, 2017 (in thousands):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 196,998	$ —	$ 196,998
Commercial paper	—	12,478	12,478
Certificates of deposit	—	2,948	2,948
U.S. government agency securities	—	551,772	551,772
Short-term investments:			
Commercial paper	—	52,596	52,596
Corporate notes and bonds	—	449,379	449,379
Certificates of deposit	—	18,755	18,755
U.S. government agency securities	—	28,358	28,358
Marketable equity securities	17,938	—	17,938
Long-term investments:			
Corporate notes and bonds	—	325,305	325,305
Certificates of deposit	—	19,533	19,533
U.S. government agency securities	—	80,020	80,020
Total	$ 214,936	$ 1,541,144	$ 1,756,080

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis at December 31, 2016 (in thousands):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$ 165,627	$ —	$ 165,627
Short-term investments:			
Commercial paper	—	56,839	56,839
Corporate notes and bonds	—	388,429	388,429
Certificates of deposit	—	35,355	35,355
U.S. government agency securities	—	17,501	17,501
Long-term investments:			
Corporate notes and bonds	—	238,125	238,125
U.S. government agency securities	—	24,533	24,533
Total	$ 165,627	$ 760,782	$ 926,409

We determine the fair value of our security holdings based on pricing from our service providers and market prices from industry-standard independent data providers. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs), such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures.

See Note 3 for the fair value measurement of our debt investments in privately-held companies and Note 9 for the fair value measurement of our convertible senior notes.

(5) Business Combinations

2017 Business Combinations

DxContinuum

On January 20, 2017, we completed the acquisition of a privately-held company, DxContinuum, Inc. (DxContinuum), by acquiring all issued and outstanding common shares of DxContinuum for approximately $15.0 million in an all-cash transaction to enhance the predictive capabilities of our solutions.

The following table summarizes the allocation of the purchase price to the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date:

	Purchase Price Allocation (in thousands)	Useful Life (in years)
Net tangible assets acquired	$ 37	
Intangible assets:		
Developed technology	6,400	5
Goodwill	11,159	
Net deferred tax liabilities[1]	(2,561)	
Total purchase price	$ 15,035	

(1) Deferred tax liabilities, net primarily relates to purchased identifiable intangible assets and is shown net of deferred tax assets.

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. We believe the goodwill represents the synergies expected from expanded market opportunities when integrating DxContinuum technologies with our offerings. The goodwill balance is not deductible for income tax purposes.

Other 2017 Business Combinations

In addition to the DxContinuum acquisition during the nine months ended September 30, 2017, we also completed the acquisition of privately-held companies Qlue, Inc. and Digital Telepathy, Inc. (Telepathy) for approximately $11.6 million in cash, and have included the results of operations of these companies in our condensed consolidated financial statements from their respective dates of purchase. In allocating the aggregate purchase price based on the estimated fair value, we recorded $9.1 million of goodwill, $3.5 million of developed technology intangible assets (to be amortized over estimated useful life of five years) and $1.1 million of deferred tax liabilities. Amounts allocated to the remaining acquired tangible assets and assumed liabilities were not material. $4.1 million of the goodwill balance associated with these business combinations is deductible for income tax purposes. We are obligated to make cash payments of up to $5.0 million in connection with the acquisition of Telepathy,, contingent upon the continued employment by us of certain former employees of Telepathy on specified future dates. We determined that this additional consideration was not part of the purchase price and will be recognized as post-acquisition expense over the related requisite service period.

Aggregate acquisition-related costs associated with all 2017 business combinations of $1.5 million for the nine months ended September 30, 2017 are included in general and administrative expenses in our condensed consolidated statements of comprehensive loss.

2016 Business Combinations

BrightPoint Security

On June 3, 2016, we completed the acquisition of a privately-held company, BrightPoint Security, Inc. (BrightPoint), by acquiring all issued and outstanding common shares of BrightPoint for approximately $19.6 million in an all-cash transaction in order to expand our Security Operations solutions. The following table summarizes the allocation of the purchase price to the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date:

	Purchase Price Allocation (in thousands)	Useful Life (in years)
Intangible assets:		
Developed technology	$ 8,100	6
Customer contracts and related relationships	500	1.5
Goodwill	15,258	
Net tangible liabilities acquired	(1,339)	
Net deferred tax liabilities[1]	(2,890)	
Total purchase price	$ 19,629	

(1) Deferred tax liabilities, net primarily relates to purchased identifiable intangible assets and is shown net of deferred tax assets.

ITapp

On April 8, 2016, we completed the acquisition of a privately-held company, ITapp Inc. (ITapp), by acquiring all issued and outstanding common shares of ITapp for approximately $14.5 million in an all-cash transaction in order to expand our IT Operations Management solutions. The following table summarizes the allocation of the purchase price to the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date:

	Purchase Price Allocation (in thousands)	Useful Life (in years)
Net tangible assets acquired	$ 140	
Intangible assets:		
Developed technology	4,700	5
Customer contracts and related relationships	200	1.5
Goodwill	11,437	
Net deferred tax liabilities[1]	(2,015)	
Total purchase price	$ 14,462	

(1) Deferred tax liabilities, net primarily relates to purchased identifiable intangible assets and is shown net of deferred tax assets.

For both of the 2016 business combinations, the excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. We believe the goodwill represents the synergies expected from expanded market opportunities when integrating the acquired technologies with our offerings. The goodwill balance for both business combinations is not deductible for income tax purposes. Aggregate acquisition-related costs of $1.0 million are included in general and administrative expenses in our condensed consolidated statements of comprehensive loss.

Unaudited Pro Forma Financial Information

The results of operations of our 2017 and 2016 business combinations have been included in our condensed consolidated financial statements from their respective dates of purchase. The following pro forma consolidated financial information combines the results of operations from us and all the companies that we acquired since January 1, 2016 for the three and nine months ended September 30, 2017 and 2016, as if these acquisitions had occurred on January 1, 2016 (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$ 499,529	$ 359,362	$ 1,390,582	$ 1,010,374
Net loss	$ (24,152)	$ (37,134)	$ (120,882)	$ (426,883)
Weighted-average shares used to compute net loss per share - basic and diluted	171,883,190	165,378,836	170,359,717	163,767,329
Net loss per share - basic and diluted	$ (0.14)	$ (0.22)	$ (0.71)	$ (2.61)

The pro forma results as presented above are based on estimates and assumptions, which we believe are reasonable. They are not necessarily indicative of our condensed consolidated results of operations in future periods or the results that actually would have been realized had we been a combined company during the periods presented. The pro forma results include adjustments primarily related to amortization of acquired intangible assets and acquisition-related costs.

(6) Goodwill and Intangible Assets

Goodwill balances are presented below (in thousands):

	Carrying Amount
Balance as of December 31, 2016	$ 82,534
Goodwill acquired	20,281
Foreign currency translation adjustments	5,282
Balance as of September 30, 2017	$ 108,097

Intangible assets consist of the following (in thousands):

	September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 91,527	$ (44,069)	$ 47,458
Patents	23,780	(2,532)	21,248
Other	1,775	(1,511)	264
Total intangible assets	$ 117,082	$ (48,112)	$ 68,970

During the nine months ended September 30, 2017, we acquired patents with a weighted average useful life of 10 years for an aggregate purchase price of $6.2 million.

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 79,206	$ (30,858)	$ 48,348
Patents	17,610	(867)	16,743
Other	1,775	(1,012)	763
Total intangible assets	$ 98,591	$ (32,737)	$ 65,854

Amortization expense for intangible assets for the three months ended September 30, 2017 and 2016 was approximately $4.8 million and $4.3 million, respectively, and for the nine months ended September 30, 2017 and 2016 was approximately $14.3 million and $10.9 million, respectively.

The following table presents the estimated future amortization expense related to intangible assets held at September 30, 2017 (in thousands):

Years Ending December 31,		
2017	$	4,769
2018		18,772
2019		18,692
2020		8,796
2021		6,871
Thereafter		11,070
Total future amortization expense	$	68,970

(7) Property and Equipment

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

		September 30, 2017		December 31, 2016
Computer equipment	$	303,336	$	222,648
Computer software		41,200		32,132
Leasehold improvements		48,000		37,095
Furniture and fixtures		36,283		31,574
Building		6,978		6,379
Construction in progress		7,044		2,535
		442,841		332,363
Less: Accumulated depreciation		(211,537)		(150,743)
Total property and equipment, net	$	231,304	$	181,620

Construction in progress consists primarily of leasehold improvements and in-process software development costs. Depreciation expense for the three months ended September 30, 2017 and 2016 was $24.3 million and $17.9 million, respectively, and for the nine months ended September 30, 2017 and 2016 was approximately $66.9 million and $48.7 million, respectively.

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

		September 30, 2017		December 31, 2016
Taxes payable	$	18,694	$	19,472
Bonuses and commissions		57,691		67,259
Accrued compensation		41,229		30,816
Other employee related liabilities		27,386		28,812
Other		32,553		25,277
Total accrued expenses and other current liabilities	$	177,553	$	171,636

(9) Convertible Senior Notes

During the three months ended June 30, 2017, we issued $782.5 million of 0% convertible senior notes (the 2022 Notes), due June 1, 2022 unless earlier converted or repurchased in accordance with their terms. In November 2013, we issued $575.0 million of 0% convertible senior notes (the 2018 Notes, and together with the 2022 Notes, the Notes), due November 1, 2018 unless earlier converted or repurchased in accordance with their terms. The Notes do not bear interest, and we cannot redeem the Notes prior to maturity.

The Notes are unsecured obligations and do not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries.

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

	Convertible Date	Initial Conversion Price per Share		Initial Conversion Rate per $1,000 Par Value	Initial Number of Shares
2022 Notes	February 1, 2022	$	134.75	7.42 shares	5,806,936
2018 Notes	July 1, 2018	$	73.88	13.54 shares	7,783,023

Holders of the Notes may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding February 1, 2022 and July 1, 2018, for the 2022 Notes and 2018 Notes, respectively (each, a Convertible Date), only under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price on each applicable trading day; or

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

- upon the occurrence of specified corporate events.

On or after the applicable Convertible Date, a holder may convert all or any portion of its Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. As noted above, we currently intend to settle the principal amount of the Notes with cash.

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

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying cost of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the proceeds allocated to the liability component, or the debt discount, is amortized to interest expense using the effective interest method over the term of the respective Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the transaction costs related to the issuance of the Notes, we allocated the total amount incurred to the liability and equity components based on their relative fair values. Transaction costs attributable to the liability component are being amortized to interest expense over the respective terms of the Notes, and transaction costs attributable to the equity component were netted with the equity component of the Notes in stockholders' equity. The Notes consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Liability component:		
Principal:		
2022 Notes	$ 782,500	$ —
2018 Notes	575,000	575,000
Less: debt issuance cost and debt discount, net of amortization		
2022 Notes	(160,164)	—
2018 Notes	(40,707)	(67,188)
Net carrying amount	$ 1,156,629	$ 507,812

	2022 Notes	2018 Notes
Equity component recorded at issuance:		
Note	$ 162,039	$ 155,319
Issuance cost	(2,148)	(3,257)
Net amount recorded in equity	$ 159,891	$ 152,062

The price of our common stock was greater than or equal to 130% of the conversion price of the 2018 Notes for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the quarter ended June 30, 2017. Therefore, as of June 30, 2017, the 2018 Notes became convertible at the holders' option beginning on July 1, 2017 and ending September 30, 2017. As of September 30, 2017, the 2018 Notes continue to be convertible at the holders' option for the period beginning October 1, 2017 and ending December 31, 2017. During the quarter ended September 30, 2017, we received requests to convert an aggregate of $4,000 principal amount of 2018 Notes, which we elected to settle in cash.

As we have the option to settle the principal amount in shares and we are more than 12 months away from the maturity date, we continue to classify the net carrying amount of our 2018 Notes as a long-term liability and the equity component of our 2018 Notes continues to remain in permanent equity. Our 2018 Notes were not convertible as of December 31, 2016. Our 2022 Notes were not convertible as of September 30, 2017.

We consider the fair value of the Notes at September 30, 2017 to be a Level 2 measurement. The estimated fair values of the Notes at September 30, 2017 and December 31, 2016 based on the closing trading price per $100 of the Notes were as follows (in thousands):

	September 30, 2017	December 31, 2016
2022 Notes	$ 842,322	N/A
2018 Notes	$ 922,501	$ 681,375

As of September 30, 2017, the remaining life of the 2022 Notes and 2018 Notes are 56 months and 13 months, respectively. The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amortization of debt issuance cost				
2022 Notes	$ 367	$ —	$ 489	$ —
2018 Notes	481	450	1,421	1,327
Amortization of debt discount				
2022 Notes	7,222	—	9,610	—
2018 Notes	8,496	7,939	25,061	23,419
Total	$ 16,566	$ 8,389	$ 36,581	$ 24,746
Effective interest rate of the liability component				
2022 Notes		4.75%		
2018 Notes		6.50%		

Note Hedges

To minimize the impact of potential economic dilution upon conversion of the Notes, we entered into convertible note hedge transactions (the 2022 Note Hedge and 2018 Note Hedge, respectively, and collectively, the Note Hedges) with certain investment banks, with respect to our common stock concurrently with the issuance of the 2022 Notes and 2018 Notes.

	Purchase	Shares
	(in thousands)	
2022 Note Hedge	$ 128,017	5,806,936
2018 Note Hedge	$ 135,815	7,783,023

The Note Hedges cover shares of our common stock at a strike price per share that corresponds to the initial conversion price of the respective Notes, subject to adjustment, and are exercisable upon conversion of the Notes. If exercised, we may elect to receive cash, shares of our common stock, or a combination of cash and shares. We have accounted for the aggregate amount of purchase price for the Note Hedges as a reduction to additional paid-in capital. The Note Hedges will expire upon the maturity of the Notes. The Note Hedges are intended to reduce the potential economic dilution upon conversion of the Notes in the event that the fair value per share of our common stock at the time of exercise is greater than the conversion price of the Notes. The Note Hedges are separate transactions and are not part of the terms of the Notes. Holders of the Notes will not have any rights with respect to the Note Hedges. The Note Hedges do not impact earnings per share, as they were entered into to offset any dilution from the Notes.

Warrants

	Proceeds	Shares	Strike Price
	(in thousands)		
2022 Warrants	$ 54,071	5,806,936	$ 203.40
2018 Warrants	$ 84,525	7,783,023	$ 107.46

Separately, we entered into warrant transactions (the 2022 Warrants and 2018 Warrants, respectively, and collectively, the Warrants) with certain investment banks, whereby we sold warrants to acquire, subject to adjustment, the number of shares of our common stock shown in the table above. If the average market value per share of our common stock for the reporting period, as measured under the Warrants, exceeds the strike price of the respective Warrants, such Warrants would have a dilutive effect on our earnings per share to the extent we report net income. The Warrants are separate transactions and are not remeasured through earnings each reporting period. The Warrants are not part of the Notes or Note Hedges, and have been accounted for as part of additional paid-in capital.

(10) Accumulated Other Comprehensive Loss

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

	September 30, 2017	December 31, 2016
Foreign currency translation adjustment	$ (3,795)	$ (19,277)
Net unrealized gain (loss) on investments, net of tax	3,387	(1,856)
Accumulated other comprehensive loss	$ (408)	$ (21,133)

Reclassification adjustments out of accumulated other comprehensive loss into net loss were immaterial for all periods presented.

(11) Stockholders' Equity

Common Stock

We were authorized to issue 600,000,000 shares of common stock as of September 30, 2017. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of September 30, 2017, we had 172,706,935 shares of common stock outstanding and had reserved shares of common stock for future issuance as follows:

	September 30, 2017
Stock plans:	
Options outstanding	4,117,639
RSUs	12,306,875
Shares of common stock available for future grants:	
2012 Equity Incentive Plan[(1)]	25,731,336
2012 Employee Stock Purchase Plan[(1)]	9,581,944
Total reserved shares of common stock for future issuance	51,737,794

(1) Refer to Note 12 for a description of these plans.

During the nine months ended September 30, 2017 and 2016, we issued a total of 5,816,968 shares and 5,225,336 shares, respectively, from stock option exercises, vesting of restricted stock units (RSUs), net of employee payroll taxes and purchases from the employee stock purchase plan (ESPP). In May 2017, we repurchased and retired 540,806 shares of our common stock for approximately $55.0 million, or $101.70 per share from certain purchasers of the 2022 Notes in connection with the 2022 Notes offering. We had no similar repurchases or retirements of common stock during the nine months ended September 30, 2016.

(12) Equity Awards

We currently have two equity incentive plans, our 2005 Stock Option Plan (the 2005 Plan) and our 2012 Equity Incentive Plan (the 2012 Plan). Our 2005 Plan was terminated in connection with our initial public offering in 2012 but continues to govern the terms of outstanding stock options that were granted prior to the termination of the 2005 Plan. We no longer grant equity awards pursuant to our 2005 Plan.

Our 2012 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, RSUs, performance-based stock awards and other forms of equity compensation (collectively, equity awards). In addition, the 2012 Plan provides for the grant of performance cash awards. Incentive stock options may be granted only to employees. All other equity awards may be granted to employees, including officers, as well as directors and consultants. The share reserve may increase to the extent outstanding stock options under the 2005 Plan expire or terminate unexercised. The share reserve also automatically increases on January 1 of each year until January 1, 2022, by up to 5% of the total number of shares of common stock outstanding on December 31 of the preceding year as determined by our board of directors. On January 1, 2017, 8,371,539 shares of common stock were automatically added to the 2012 Plan pursuant to the provision described in the preceding sentence.

Our 2012 Employee Stock Purchase Plan (the 2012 ESPP) authorizes the issuance of shares of common stock pursuant to purchase rights granted to our employees. The price at which common stock is purchased under the 2012 ESPP is equal to 85% of the fair market value of our common stock on the first or last day of the offering period, whichever is lower. Offering periods are six months long and begin on February 1 and August 1 of each year. The number of shares of common stock reserved for issuance automatically increases on January 1 of each year until January 1, 2022, by up to 1% of the total number of shares of common stock outstanding on December 31 of the preceding year as determined by our board of directors. On January 1, 2017, 1,674,308 shares of common stock were automatically added to the 2012 ESPP pursuant to the provision described in the preceding sentence.

Stock Options

A summary of the stock option activity for the nine months ended September 30, 2017 is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2016	5,818,435	$ 20.57		
Granted	566,720	84.81		
Exercised	(697,446)	15.77		$ 51,560
Canceled	(38,334)	71.68		
Outstanding at March 31, 2017	5,649,375	27.26		
Granted	50,000	103.60		
Exercised	(705,807)	8.62		$ 62,617
Canceled	(1,174)	57.78		
Outstanding at June 30, 2017	4,992,394	30.65		
Exercised	(843,046)	16.66		$ 78,926
Canceled	(31,709)	69.45		
Outstanding at September 30, 2017	4,117,639	$ 33.22	5.49	$ 347,148
Vested and expected to vest as of September 30, 2017	4,080,735	$ 32.87	5.47	$ 345,495
Vested and exercisable as of September 30, 2017	3,040,729	$ 16.77	4.27	$ 306,399

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 weighted-average grant date fair value per share of options granted was $37.57 for the nine months ended September 30, 2017. The total fair value of stock options vested during the nine months ended September 30, 2017 was $8.6 million.

Included in the number of options granted during the nine months ended September 30, 2017 are 396,720 options with both service and market-based criteria, which were granted to our President and Chief Executive Officer, who started his employment with us during the second quarter. The fair values of the options granted and the corresponding derived service periods were calculated using a Monte Carlo simulation, which estimates the potential outcome of reaching the market condition based on simulated future stock prices. The stock-based compensation expense associated with these options are recorded on a graded vesting basis.

As of September 30, 2017, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately $29.7 million. The weighted-average remaining vesting period of unvested stock options at September 30, 2017 was 3.34 years.

RSUs

A summary of RSU activity for the nine months ended September 30, 2017 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (Per Share)	Aggregate Intrinsic Value (in thousands)
Non-vested at December 31, 2016	12,222,282	$ 63.66	
Granted	4,216,410	88.05	
Vested	(1,801,659)	55.73	$ 164,367
Forfeited	(507,680)	73.14	
Non-vested at March 31, 2017	14,129,353	71.60	
Granted	763,940	97.79	
Vested	(1,177,903)	63.84	$ 115,487
Forfeited	(445,303)	68.78	
Non-vested at June 30, 2017	13,270,087	73.89	
Granted	711,084	111.06	
Vested	(1,274,390)	61.61	$ 137,021
Forfeited	(399,906)	73.46	
Non-vested at September 30, 2017	12,306,875	$ 77.33	$ 1,446,427

RSUs granted to employees under the 2012 Plan generally vest over a four-year period. As of September 30, 2017, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately $698.8 million and the weighted-average remaining vesting period was 2.83 years.

(13) Net Loss Per Share

Basic net loss per share attributable to common stockholders is computed by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss 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 common stock options, RSUs, ESPP obligations, convertible senior notes and warrants. The dilutive potential shares of common stock are computed using the treasury stock method or the as-if converted method, as applicable. The effects of outstanding common stock options, RSUs, ESPP obligations, convertible senior notes and warrants are excluded from the computation of diluted net loss per share in periods in which the effect would be antidilutive.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net loss	$ (24,188)	$ (36,258)	$ (121,323)	$ (419,215)
Denominator:				
Weighted-average shares outstanding—basic and diluted	171,883,190	165,378,836	170,359,717	163,767,329
Net loss per share—basic and diluted:	$ (0.14)	$ (0.22)	$ (0.71)	$ (2.56)

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

	September 30,	
	2017	2016
Common stock options	4,117,639	6,475,548
Restricted stock units	12,306,875	12,834,324
ESPP obligations	363,951	360,536
2018 convertible senior notes	7,783,023	7,783,023
Warrants related to the issuance of 2018 convertible senior notes	7,783,023	7,783,023
2022 convertible senior notes	5,806,933	—
Warrants related to the issuance of 2022 convertible senior notes	5,806,933	—
Total potentially dilutive securities	43,968,377	35,236,454

(14) Income Taxes

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

Our effective tax rate was (6)% and 2% for the three and nine months ended September 30, 2017, which was lower than the U.S. federal statutory tax rate of 34%. The lower tax rate was primarily attributable to our loss from operations, the foreign tax rate differential, a release of the valuation allowance in connection with acquisitions, excess tax benefits of stock-based compensation and the tax effects of unrealized gains in investment securities.

Our effective tax rate was (9)% and 0% for the three and nine months ended September 30, 2016, which was lower than the U.S. federal statutory tax rate of 34%. The lower tax rate was primarily attributable to our loss from operations, the foreign tax rate differential, a release of the valuation allowance in connection with acquisitions and excess tax benefits of stock-based compensation.

We are subject to taxation in the United States and foreign jurisdictions. As of September 30, 2017, our tax years 2005 to 2016 remain subject to examination in most jurisdictions.

There are differing interpretations of tax laws and regulations, and as a result, disputes may arise with tax authorities involving issues of the timing and amount of deductions and allocations of income among various tax jurisdictions. We periodically evaluate our exposures associated with our tax filing positions. We believe that adequate amounts have been reserved for any adjustments that may ultimately result from these examinations, and we do not anticipate a significant impact to our gross unrecognized tax benefits within the next 12 months related to these years. Although the timing of the resolution, settlement, and closure of any audit is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. However, given the number of years that remain subject to examination, we are unable to estimate the full range of possible adjustments to the balance of gross unrecognized tax benefits.

(15) Commitments and Contingencies

Operating Leases and Other Contractual Commitments

For some of our offices and data centers, we have entered into non-cancelable operating lease agreements with various expiration dates. Future minimum payments under our non-cancelable operating leases and other contractual commitments outstanding as of September 30, 2017 are presented in the table below (in thousands):

	Leases, net of Sublease Income	Purchase Obligations[1]	Other	Total
Years Ending December 31,				
Remainder of 2017	$ 10,235	$ 9,988	$ 141	$ 20,364
2018	44,460	35,984	565	81,009
2019	45,906	16,599	565	63,070
2020	45,688	7,845	565	54,098
2021	44,204	5,605	565	50,374
Thereafter	161,530	2,144	1,605	165,279
Total	$ 352,023	$ 78,165	$ 4,006	$ 434,194

(1) Consists of future minimum payments under non-cancelable purchase commitments primarily related to data center and IT operations and sales and marketing activities. Not included in the table above are certain purchase commitments related to our future annual Knowledge user conferences and other customer or sales conferences. If we were to cancel these contractual commitments as of September 30, 2017, we would have been obligated to pay cancellation penalties of approximately $22.9 million in aggregate, of which $9.8 million is related to our Knowledge user conference in May 2018.

In addition to the amounts above, the repayment of our 2022 Notes with an aggregate principal amount of $782.5 million is due on June 1, 2022, and the repayment of our 2018 Notes with an aggregate principal amount of $575.0 million is due on November 1, 2018. Refer to Note 9 for further information regarding our Notes.

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.

On February 6, 2014, Hewlett-Packard Company (Hewlett-Packard) filed a lawsuit against us in the U.S. District Court for the Northern District of California. The lawsuit alleged patent infringement and sought damages and an injunction. On or about November 1, 2015, Hewlett Packard Enterprise Company (HPE) separated from Hewlett-Packard as an independent company, Hewlett-Packard assigned to HPE all right, title, and interest in the eight Hewlett-Packard patents in the lawsuit, and HPE was substituted as plaintiff in the litigation. On March 4, 2016, we entered into a confidential settlement agreement resolving the lawsuit with HPE (HPE Settlement). As a result, on March 9, 2016, the lawsuit was dismissed.

BMC Software, Inc. (BMC) filed lawsuits against us in the U.S. District Court for the Eastern District of Texas on September 23, 2014 and February 12, 2016, and in the Dusseldorf (Germany) Regional Court, Patent Division, on March 2, 2016. Each of the lawsuits alleged patent infringement and sought damages and an injunction. On April 8, 2016, we entered into a confidential settlement agreement resolving all the lawsuits with BMC (BMC Settlement). As a result, the second Texas lawsuit was dismissed on April 14, 2016, and each of the initial Texas lawsuit and the German lawsuit was dismissed on April 25, 2016.

These settlements are considered multiple element arrangements for accounting purposes. We evaluated the accounting treatment of these settlements by identifying each element of the arrangements, which included amongst other elements, a release of past infringement claims and a covenant not to sue for a specified term of years. The primary benefit we received from the arrangements was the settlement and termination of all existing litigation, the avoidance of future litigation expenses and the avoidance of future management and customer disruptions. We determined that none of the elements of the settlement agreements have identifiable future benefits that would be capitalized as an asset. Accordingly, we recorded charges for aggregate legal settlements of $270.0 million in our condensed consolidated statement of comprehensive loss during the nine months ended September 30, 2016. The charge covers the fulfillment by us of all financial obligations under both the BMC Settlement and HPE Settlement with no remaining financial obligations under either settlement.

(16) 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 thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
North America (1)	$ 329,582	$ 239,585	$ 937,426	$ 684,111
EMEA (2)	127,518	90,399	340,054	246,745
Asia Pacific and other	41,070	27,672	109,176	73,991
Total revenues	$ 498,170	$ 357,656	$ 1,386,656	$ 1,004,847

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

	September 30, 2017	December 31, 2016
North America(3)	$ 160,813	$ 132,671
EMEA(2)	50,692	37,449
Asia Pacific and other	19,799	11,500
Total property and equipment, net	$ 231,304	$ 181,620

(1) Revenues attributed to the United States were approximately 94% of North America revenues for the three and nine months ended September 30, 2017 and approximately 95% of North America revenues for the three and nine months ended September 30, 2016.
(2) Europe, the Middle East and Africa
(3) Property and equipment, net attributed to the United States were approximately 88% and 92% of property and equipment, net attributable to North America as of September 30, 2017 and December 31, 2016, respectively.

Subscription revenues consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service Management solutions	$ 399,795	$ 290,005	$ 1,097,177	$ 799,278
IT Operations Management solutions	55,626	28,929	145,386	77,757
Total subscription revenues	$ 455,421	$ 318,934	$ 1,242,563	$ 877,035

Our Service Management solutions include ServiceNow Platform, IT Service Management, IT Business Management, Customer Service Management, Human Resources Management and Security Operations Management, which have similar features and functions, and are generally priced on a per user basis. Our IT Operations Management solutions, which improve visibility, availability and agility of enterprise services, are generally priced on a per node basis.

(17) Subsequent Event

On October 31, 2017, we acquired for cash all of the outstanding stock of SkyGiraffe Inc., a mobile platform company, for total purchase consideration of approximately $32 million. Our accounting and analysis of this transaction is pending completion.

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, 2016 included in the Annual Report on Form 10-K dated as of, and filed with the Securities and Exchange Commission, or the SEC, on February 28, 2017 (File No. 001-35580). 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, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors," set forth 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.

Our billings and free cash flow measures included in the sections entitled "—Key Business Metrics—Billings," and "—Key Business Metrics—Free Cash Flow" are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We believe investors should consider these non-GAAP financial measures in evaluating our results as they are indicative of our ongoing performance and reflect how management evaluates our operational results and trends.

Overview

ServiceNow is a leading provider of enterprise cloud computing solutions that define, structure, manage and automate services for global enterprises. Our mission is to help our customers improve service levels and reduce costs while scaling and automating their businesses. We typically deliver our software via the Internet as a service, through an easy-to-use, consumer product-like interface, which means it can be easily configured and rapidly deployed. In a minority of cases, we deploy our software on-premises at a customer data center to support a customer's unique regulatory or security requirements.

We generally offer our services on an annual subscription fee basis, which includes access to the ordered subscription service and related support, including updates to the subscribed service during the subscription term. We provide a scaled pricing model based on the duration of the subscription term, and we frequently extend discounts to our customers based on the number of users. We generate sales through our direct sales team and, to a lesser extent, indirectly through resale partners and third-party referrals. We also generate revenues from professional services for implementation and configuration services and for training of customer and partner personnel. We generally bill our customers annually in advance for subscription services and monthly in arrears for our professional services as the work is performed.

A majority of our revenues come from large global enterprise customers. We continue to invest in the development of our services, infrastructure and sales and marketing to drive long-term growth. We increased our overall employee headcount to 5,895 as of September 30, 2017 from 4,501 as of September 30, 2016.

Key Business Metrics

Number of customers with ACV greater than $1 million. We count the total number of customers with annualized contract value (ACV) greater than $1 million as of the end of the period. We had 436 and 308 customers with ACV greater than $1 million as of September 30, 2017 and 2016, respectively. For purposes of customer count, a customer is defined as an entity with 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. Previously disclosed number of customers with ACV greater than $1 million as well as our average contract term calculations are restated 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.

G2K customer count. The Global 2000 (G2K) customer count is defined as the total number of G2K companies in our customer base as of the end of the period. The Forbes Global 2000 is an annual ranking of the top 2,000 public companies in the world by Forbes magazine. The ranking is based on a mix of four metrics: sales, profit, assets, and market value. The Forbes Global 2000 is updated annually in the second quarter of the calendar year. Current and prior period G2K customer counts are based on the most recent list for comparability purposes. We adjust the G2K count for acquisitions, spin-offs and other market activity to ensure the G2K customer count is accurately captured. For example, we add a G2K customer when a G2K company that is not our customer acquires a company in our existing customer base that is not a G2K company. When we enter into a contract with a G2K parent company, or any of its related subsidiaries, or any combination of entities within a G2K company, we count only one G2K customer. We do not count further penetration into entities within a given G2K as a new customer in the G2K customer count. Our G2K customer count also excludes customers that have only purchased our Express product offering, which is our entry-level IT service management solution. Our G2K customer count was 815 and 707 as of September 30, 2017 and 2016, respectively.

Average ACV per G2K customer. We calculate average ACV for our G2K customers by taking aggregate ACV from G2K customers as of the end of the period divided by the total number of G2K customers as of the end of the period. ACV is calculated based on the foreign exchange rate in effect at the time the contract was entered into, and as a result, foreign currency rate fluctuations could cause variability in the average ACV per G2K customer. Our average ACV per G2K customer was approximately $1.2 million and $1.0 million as of September 30, 2017 and 2016, respectively.

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 total ACV from all customers that renewed during the period, excluding changes in price or users, and 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. 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. Our renewal rate was 97% and 99% for the three months ended September 30, 2017 and 2016, respectively, and 97% and 98% for the nine months ended September 30, 2017 and 2016, respectively. As our renewal rate is impacted by the timing of renewals, which could occur in advance of, or subsequent to the original contract end date, period-to-period comparison of renewal rates may not be meaningful.

Billings. We define billings, a non-GAAP financial measure, as revenues recognized plus the change in total deferred revenue as presented on the condensed consolidated statements of cash flows. The change in total deferred revenue as presented on the condensed consolidated statements of cash flows represents the change in deferred revenues in local currencies translated into U.S. dollars using an average foreign currency exchange rate, and aligns actual billings with the exchange rates in effect at the time of the billings. We believe billings is a useful leading indicator regarding the performance of our business.

A calculation of billings is provided below:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	% Change
	(dollars in thousands)			(dollars in thousands)		
Billings:						
Total revenues	$ 498,170	$ 357,656	39%	$ 1,386,656	$ 1,004,847	38%
Change in deferred revenue from the condensed consolidated statements of cash flows	47,932	46,620	3%	193,594	151,019	28%
Total billings	$ 546,102	$ 404,276	35%	$ 1,580,250	$ 1,155,866	37%

Billings consists of amounts invoiced for subscription contracts with existing customers, renewals, upsells and new customers, and contracts for professional services, training, and our Knowledge and other customer forum events. Factors that may cause our billings results to vary from period to period include the following:

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

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

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

- *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 upselling additional products or services, 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.

Accordingly, while we believe billings is a useful leading indicator regarding the performance of our business, an increase or decrease in new or renewed subscriptions in a reporting period may not have an immediate impact on billings for that reporting period due to the factors above, which may offset the increase or decrease, as applicable.

To facilitate greater year-over-year comparability in our billings results, we disclose the impact that foreign currency rate fluctuations and fluctuations in billings duration had on our billings. The impact of foreign currency rate fluctuations is calculated by translating the current period results for entities reporting in currencies other than U.S. Dollars into U.S. Dollars at the exchange rates in effect during the prior period presented, rather than the actual exchange rates in effect during the current period. The impact of fluctuations in billings duration is calculated by replacing the portion of multi-year billings in excess of 12 months during the current period with the portion of multi-year billings in excess of 12 months during the prior period presented. In our Annual Report on Form 10-K for the year ended December 31, 2016, we calculated the impact of fluctuations in billings duration using a different methodology that applied the weighted average billings duration in effect during the prior period presented rather than the actual weighted average billings duration in effect during the current period. Weighted average billings duration refers to the weighted average billings duration for all our customer contracts commencing during the period, unless such amounts have been paid during the period. To the extent that multi-year billings grow and billings durations lengthen, our current methodology provides more meaningful information on the impact of multi-year billings fluctuations than our previous weighted average billings duration methodology. This change in methodology did not have a material impact on the amounts previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. Notwithstanding the adjustments described above, the comparability of billings results from period to period remains subject to the impact of variations in the dollar value of contracts with future start dates and the timing of contract renewals, for which no adjustments have been presented.

Foreign currency rate fluctuations had a favorable impact of $6.9 million and an unfavorable impact of $11.4 million on billings for the three and nine months ended September 30, 2017, respectively. Changes in billings duration had an unfavorable impact of $3.9 million and a favorable impact of $14.0 million for the three and nine months ended September 30, 2017, respectively.

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

Free cash flow. We define free cash flow, a non-GAAP financial measure, as GAAP net cash provided by operating activities reduced by purchases of property and equipment. Purchases of property and equipment are otherwise included in cash used in investing activities under GAAP. We believe information regarding free cash flow provides useful information to investors because it is an indicator of the strength and performance of our business operations. However, our calculation of free cash flow may not be comparable to similar measures used by other companies. In addition, free cash flow is impacted by the timing of collections and disbursements, including the timing of capital expenditures. We have historically seen higher collections in the quarter ended March 31 due to seasonality in timing of entering into customer contracts in the quarter ended December 31. A calculation of free cash flow is provided below:

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Free cash flow:			
Net cash provided by operating activities	$ 458,039	$ 27,234	NM
Purchases of property and equipment	(115,856)	(84,112)	38%
Free cash flow [(1)]	$ 342,183	$ (56,878)	NM

NM - Not meaningful.

(1) Free cash flow includes the effect of a $267.5 million payment for legal settlement during the nine months ended September 30, 2016. Refer to Note 15 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details.

Average contract term. We calculate the average contract term for new customers, upsells and renewals based on the terms of those contracts entered into during the period weighted by their ACV. The average new customer contract term was 26 months and 30 months for the three months ended September 30, 2017 and 2016, respectively, and 30 months and 32 months for the nine months ended September 30, 2017 and 2016, respectively. The average upsell contract term was 22 months and 25 months for the three months ended September 30, 2017 and 2016, respectively, and 25 months for each of the nine months ended September 30, 2017 and 2016. The average renewal contract term was 25 months and 27 months for the three months ended September 30, 2017 and 2016, respectively, and 26 months and 27 months for the nine months ended September 30, 2017 and 2016, respectively.

Components of Results of Operations

Revenues

Subscription revenues. Subscription revenues are primarily comprised of fees that give customers access to the ordered subscription service, related support and upgrades, if any, to the subscription service during the subscription term. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future upgrades, when and if available, offered during the subscription term. We typically invoice our customers for subscription fees in annual increments upon execution of the initial contract or subsequent renewal. Our contracts are generally non-cancelable during the subscription term, though a customer can terminate for breach if we materially fail to perform.

Professional services and other revenues. Professional services revenues consist of fees associated with the implementation and configuration of our subscription service. Our arrangements for professional services are primarily on a time-and-materials basis. We generally invoice our professional services monthly in arrears based on actual hours and expenses incurred. Other revenues primarily include fees from customer training delivered on-site or publicly available classes, attendance and sponsorship fees for our annual Knowledge user conference and other customer forums. Typical payment terms require our customers to pay us within 30 days of invoice.

We generate sales directly through our sales team and, to a lesser extent, through our resale partners. Revenues from our direct sales organization represented 88% of our total revenues for each of the three months ended September 30, 2017 and 2016, and 89% and 88% for the nine months ended September 30, 2017 and 2016, respectively. We make sales to our resale partners at a discount and record those revenues at the discounted price when all revenue recognition criteria are met. From time to time, other third parties provide us referrals for which we pay a referral fee. We include revenues associated with these referrals as part of revenues from our direct sales organization. Referral fees paid to these third parties are between 5% and 15% of the customer's ACV, depending on the level of activity these third parties perform in the sales process. We include these fees in sales and marketing expense.

Allocation of Overhead Costs

Overhead costs associated with office facilities, IT and certain depreciation related to infrastructure that is not dedicated for customer use or research and development use are allocated to cost of revenues and operating expenses based on headcount.

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 includes facility 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 and 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 associated with the implementation and configuration of our subscription services are performed directly by our services team, as well as by contracted third-party partners. Fees paid 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 19% for each of the three months ended September 30, 2017 and 2016 and 18% for each of the nine months ended September 30, 2017 and 2016.

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, commissions and stock-based compensation. Sales and marketing expenses also include third-party referral fees, expenses related to our annual Knowledge user conference, other marketing program expenses, which include events other than Knowledge, advertising and market data, and allocated overhead.

Research and Development

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

General and Administrative

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

Legal Settlements

Legal settlements consist of one-time aggregate charges related to the settlement agreements with Hewlett Packard Enterprise Company (HPE) and BMC Software, Inc. (BMC). Refer to Note 15 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details of these matters.

Provision for (Benefit from) Income Taxes

Provision for (benefit from) income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our U.S. deferred tax assets as of September 30, 2017 and December 31, 2016. We consider all available evidence, both positive and negative, including but not limited to earnings history, projected future outcomes, industry and market trends and the nature of each of the deferred tax assets in assessing the extent to which a valuation allowance should be applied against our deferred tax assets.

Results of Operations

To enhance comparability, the following table sets forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Revenues:				
Subscription	$ 455,421	$ 318,934	$ 1,242,563	$ 877,035
Professional services and other	42,749	38,722	144,093	127,812
Total revenues	498,170	357,656	1,386,656	1,004,847
Cost of revenues(1):				
Subscription	81,878	61,566	228,046	170,707
Professional services and other	45,402	41,271	137,366	123,039
Total cost of revenues	127,280	102,837	365,412	293,746
Gross profit	370,890	254,819	1,021,244	711,101
Operating expenses(1):				
Sales and marketing	227,015	166,491	686,325	511,607
Research and development	98,465	75,018	272,959	211,306
General and administrative	52,465	40,085	150,242	117,393
Legal settlements	—	—	—	270,000
Total operating expenses	377,945	281,594	1,109,526	1,110,306
Loss from operations	(7,055)	(26,775)	(88,282)	(399,205)
Interest expense	(16,566)	(8,389)	(36,581)	(24,746)
Interest income and other income (expense), net	853	1,783	739	4,745
Loss before income taxes	(22,768)	(33,381)	(124,124)	(419,206)
Provision for (benefit from) income taxes	1,420	2,877	(2,801)	9
Net loss	$ (24,188)	$ (36,258)	$ (121,323)	$ (419,215)

(1) Stock-based compensation included in the statements of operations above was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)		(in thousands)	
Cost of revenues:				
Subscription	$ 8,980	$ 7,140	$ 25,860	$ 20,698
Professional services and other	7,056	7,150	21,622	20,045
Sales and marketing	43,962	31,898	124,650	95,757
Research and development	23,092	21,376	67,624	62,956
General and administrative	17,352	13,523	48,695	35,004
Total stock-based compensation	$ 100,442	$ 81,087	$ 288,451	$ 234,460

The following table sets forth our results of operations as a percentage of total revenues for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Subscription	91 %	89 %	90 %	87 %
Professional services and other	9	11	10	13
Total revenues	100	100	100	100
Cost of revenues[(1)]:				
Subscription	16	17	17	17
Professional services and other	10	12	9	12
Total cost of revenues	26	29	26	29
Gross profit	74	71	74	71
Operating expenses[(1)]:				
Sales and marketing	46	47	49	51
Research and development	19	21	19	21
General and administrative	10	11	12	12
Legal settlements	—	—	—	27
Total operating expenses	75	79	80	111
Loss from operations	(1)	(8)	(6)	(40)
Interest expense	(4)	(2)	(3)	(2)
Interest income and other income (expense), net	—	—	—	—
Loss before income taxes	(5)	(9)	(9)	(42)
Provision for (benefit from) income taxes	—	1	—	—
Net loss	(5)%	(10)%	(9)%	(42)%

(1) Stock-based compensation included in the statements of operations above as a percentage of revenues was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenues:				
Subscription	2%	2%	2%	2%
Professional services and other	1	2	2	2
Sales and marketing	9	9	9	10
Research and development	5	6	5	6
General and administrative	3	4	3	3
Total stock-based compensation	20%	23%	21%	23%

Comparison of the Three Months Ended September 30, 2017 and 2016

Revenues

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change
	(dollars in thousands)		
Revenues:			
Subscription	$ 455,421	$ 318,934	43%
Professional services and other	42,749	38,722	10%
Total revenues	$ 498,170	$ 357,656	39%
Percentage of revenues:			
Subscription	91%	89%	
Professional services and other	9%	11%	
Total	100%	100%	

Subscription revenues increased $136.5 million during the three months ended September 30, 2017, compared to the same period in the prior year, driven by our upsells and an increase in our customer count. We expect subscription revenues to grow in absolute dollars and as a percentage of total revenues for the year ending December 31, 2017 compared to the year ended December 31, 2016 as we continue to add new customers and upsell to existing customers. Our expectations for revenues, cost of revenues and operating expenses for the fourth quarter of 2017 are based on foreign exchange rates as of September 30, 2017.

Subscription revenues consist of the following:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	% Change
	(dollars in thousands)		
Service Management solutions	$ 399,795	$ 290,005	38%
IT Operations Management solutions	55,626	28,929	92%
Total subscription revenues	$ 455,421	$ 318,934	43%

Our Service Management solutions include ServiceNow Platform, IT Service Management, IT Business Management, Customer Service, Human Resources and Security Operations, which have similar features and functions and are generally priced on a per user basis. Our IT Operations Management solutions, which improve visibility, availability and agility of enterprise services, are generally priced on a per node basis.

Professional services and other revenues increased $4.0 million during the three months ended September 30, 2017, compared to the same period in the prior year, due to an increase in the services provided to our growing customer base. We expect professional services and other revenues to increase in absolute dollar terms, but at a slower rate compared to subscription revenues, for the year ending December 31, 2017 compared to the year ended December 31, 2016, as we are increasingly focused on deploying our internal professional services organization as a strategic resource and relying on our partner ecosystem to contract directly with customers for service delivery.

Our international operations have provided and will continue to provide a significant portion of our total revenues. Revenues outside North America represented 34% and 33% of total revenues for the three months ended September 30, 2017 and 2016, respectively. As a result, the general weakening of the U.S. Dollar relative to other major foreign currencies (primarily the Euro and British Pound Sterling) from the three months ended September 30, 2016 to the three months ended September 30, 2017 had a favorable impact on our revenues. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three months ended September 30, 2017 at the exchange rates for the three months ended September 30, 2016 rather than the actual exchange rates in effect during the period, our reported subscription revenues would have been $5.9 million lower. The impact from the foreign currency movements from the three months ended September 30, 2016 to the three months ended September 30, 2017 is not material to professional services and other revenues.

Cost of Revenues and Gross Profit Percentage

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$ 81,878	$ 61,566	33%
Professional services and other	45,402	41,271	10%
Total cost of revenues	$ 127,280	$ 102,837	24%
Gross profit (loss) percentage:			
Subscription	82 %	81 %	
Professional services and other	(6)%	(7)%	
Total gross profit percentage	74 %	71 %	
Gross Profit	$ 370,890	$ 254,819	
Headcount (at period end)			
Subscription	886	691	28%
Professional services and other	555	504	10%
Total headcount	1,441	1,195	21%

Cost of subscription revenues increased $20.3 million during the three months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $8.3 million in personnel-related costs excluding stock-based compensation, an increase of $1.9 million in overhead expenses and an increase of $1.8 million in stock-based compensation. In addition, there was an increase of $4.6 million in depreciation expense primarily due to purchases of infrastructure hardware equipment for our data centers and an increase of $2.2 million in data center capacity costs due to the addition of new data centers and the expansion of existing data centers.

Our subscription gross profit percentage increased to 82% for the three months ended September 30, 2017, from 81% for the three months ended September 30, 2016, due to improved data center utilization and economies of scale. We expect our cost of subscription revenues to increase in absolute dollar terms for the year ending December 31, 2017 compared to the year ended December 31, 2016 as we provide subscription services to more customers and increase the number of users within our customer instances. We expect our subscription gross profit percentage to improve slightly for the year ending December 31, 2017 compared to the year ended December 31, 2016 as we continue to leverage the investments we have made in our existing data center infrastructure. To the extent future acquisitions are consummated, our cost of subscription revenues may increase due to additional non-cash charges associated with the amortization of intangible assets acquired.

Cost of professional services and other revenues increased $4.1 million during the three months ended September 30, 2017 as compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $2.2 million in personnel-related costs excluding stock-based compensation and an increase of $0.4 million in overhead expenses. Outside service costs increased $1.3 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased utilization of contracted third-party partners for the implementation and configuration of our subscription services.

Our professional services and other gross loss percentage decreased to 6% for the three months ended September 30, 2017, from 7% for the three months ended September 30, 2016, primarily due to professional services and other revenues increasing at a higher rate than personnel-related costs including stock-based compensation. We expect cost of professional services and other revenues to increase in absolute dollars for the year ending December 31, 2017 compared to the year ended December 31, 2016 as our business grows. We expect our professional services and other gross loss percentage to be slightly higher for the year ending December 31, 2017 compared to the year ended December 31, 2016 as we continue to invest in our professional services organization to support our newer products.

The impact from the foreign currency movements from the three months ended September 30, 2016 to the three months ended September 30, 2017 is not material to cost of revenues.

Sales and Marketing

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Sales and marketing	$ 227,015	$ 166,491	36%
Percentage of revenues	46%	47%	
Headcount (at period end)	2,279	1,740	31%

Sales and marketing expenses increased $60.5 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased headcount that resulted in an increase of $29.7 million in personnel-related costs excluding stock-based compensation and commissions, an increase of $12.1 million in stock-based compensation and an increase of $5.6 million in overhead expenses. Commissions and third-party referral fees increased $8.5 million, and amounted to 7% of subscription revenues for each of the three months ended September 30, 2017 and 2016. Marketing program expenses, which include events, advertising and market data, increased $2.4 million during the three months ended September 30, 2017 compared to the same period in the prior year. Outside service costs increased $1.8 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to an increase in contractors and consultants to support our sales and marketing functions.

The general weakening of the U.S. Dollar relative to other major foreign currencies from the three months ended September 30, 2016 to the three months ended September 30, 2017 had an unfavorable impact on our sales and marketing expenses. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the three months ended September 30, 2017 at the exchange rates for the three months ended September 30, 2016 rather than the actual exchange rates in effect during the period, our reported sales and marketing expenses would have been $1.9 million lower.

We expect sales and marketing expenses to increase in absolute dollar terms for the year ending December 31, 2017 compared to the year ended December 31, 2016, but decrease slightly as a percentage of total revenues as we continue to expand our direct sales force, increase our marketing activities, grow our international operations, build brand awareness and sponsor additional marketing events.

Research and Development

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Research and development	$ 98,465	$ 75,018	31%
Percentage of revenues	19%	21%	
Headcount (at period end)	1,322	970	36%

Research and development expenses increased $23.4 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased headcount, which resulted in an increase of $15.5 million in personnel-related costs excluding stock-based compensation, an increase of $3.8 million in overhead expenses and an increase of $1.7 million in stock-based compensation. Outside service costs increased $1.7 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to an increase in contractors and consultants that support our research and development functions.

The impact from the foreign currency movements from the three months ended September 30, 2016 to the three months ended September 30, 2017 is not material to research and development expenses.

We expect research and development expenses to increase in absolute dollar terms for the year ending December 31, 2017 compared to the year ended December 31, 2016, but decrease slightly as a percentage of total revenues as we continue to improve the existing functionality of our services, develop new applications to fill market needs and continue to enhance our core platform.

General and Administrative

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
General and administrative	$ 52,465	$ 40,085	31%
Percentage of revenues	10%	11%	
Headcount (at period end)	853	596	43%

General and administrative expenses increased $12.4 million during the three months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount, which resulted in an increase of $3.8 million in stock-based compensation and an increase of $5.9 million in personnel-related costs excluding stock-based compensation. Outside service costs increased $2.0 million and software subscription costs increased $1.2 million during the three months ended September 30, 2017 compared to the same period in the prior year to support our general and administrative functions.

The impact from the foreign currency movements from the three months ended September 30, 2016 to the three months ended September 30, 2017 is not material to general and administrative expenses.

We expect general and administrative expenses to increase in absolute dollar terms for the year ending December 31, 2017 compared to the year ended December 31, 2016 as we continue to hire people, but decrease slightly as a percentage of total revenues as we continue to grow our revenues and achieve economies of scale across our administrative functions.

Stock-based Compensation

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$ 8,980	$ 7,140	26 %
Professional services and other	7,056	7,150	(1)%
Sales and marketing	43,962	31,898	38 %
Research and development	23,092	21,376	8 %
General and administrative	17,352	13,523	28 %
Total stock-based compensation	$ 100,442	$ 81,087	24 %
Percentage of revenues	20%	23%	

Stock-based compensation increased $19.4 million during the three months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount and increased weighted-average grant date fair value of stock awards.

Stock-based compensation is inherently difficult to forecast due to fluctuations in our stock price. Based upon our stock price as of September 30, 2017, we expect stock-based compensation to increase in absolute dollar terms for the year ending December 31, 2017 compared to the year ended December 31, 2016, but decrease as a percentage of total revenues as we continue to grow.

Interest Expense

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Interest expense	$ 16,566	$ 8,389	97%
Percentage of revenues	4%	2%	

Interest expense increased $8.2 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to the increase in amortization expense of debt discount and issuance costs related to the 2022 Notes. For the remainder of the year, we expect to incur approximately $16.8 million in amortization expense of debt discount and issuance costs related to the convertible notes.

Interest Income and Other Income (Expense), net

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Interest income	$ 4,546	$ 2,049	122%
Foreign currency exchange loss	(4,119)	(303)	NM
Other	426	37	NM
Interest and other income (expense), net	$ 853	$ 1,783	NM
Percentage of revenues	—%	—%	

NM - Not meaningful.

Interest income and other income (expense), net decreased $0.9 million during the three months ended September 30, 2017 compared to the same period in the prior year, primarily due to higher foreign exchange losses, partially offset by increased interest income. We had foreign exchange losses of $4.1 million for the three months ended September 30, 2017 compared to losses of $0.3 million for the three months ended September 30, 2016 as a result of fluctuations in foreign currency exchange rates. Interest income increased $2.5 million due to higher cash balances and higher yields on our invested balances for the three months ended September 30, 2017.

Our expanding international operations will continue to increase our exposure to currency risks, though we cannot presently predict the impact of this exposure on our condensed consolidated financial statements. While we have not engaged in the hedging of our foreign currency transactions to date, we are conducting an ongoing evaluation of the costs and benefits of initiating such a program and in the future may hedge selected significant transactions denominated in currencies other than the U.S. Dollar.

Provision for Income Taxes

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Loss before income taxes	$ (22,768)	$ (33,381)	(32)%
Provision for income taxes	1,420	2,877	(51)%
Effective tax rate	(6)%	(9)%	

Our effective tax rate was (6)% for the three months ended September 30, 2017 compared to (9)% for the three months ended September 30, 2016, primarily due to excess tax benefits of stock-based compensation and the tax effects of unrealized gains in investment securities.

We continue to maintain a full valuation allowance on our federal and state deferred tax assets, and the significant components of the tax expense recorded are current cash taxes in various jurisdictions. The cash tax expenses are impacted by each jurisdiction's individual tax rates, laws on timing of recognition of income and deductions, and availability of net operating losses and tax credits. Given the full valuation allowance, sensitivity of current cash taxes to local rules and our foreign restructuring, we expect that our effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates. We consider the earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States.

Net Loss

	Three Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Net loss	$ (24,188)	$ (36,258)	(33)%
Percentage of revenues	(5)%	(10)%	

Net loss decreased $12.1 million during the three months ended September 30, 2017 compared to the same period in the prior year. We expect to continue to incur a GAAP loss for the year ending December 31, 2017 due to increased costs and expenses, including non-cash charges associated with equity awards, amortization of purchased intangibles from business combinations, and other expenses.

Comparison of the Nine Months Ended September 30, 2017 and 2016

Revenues

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Revenues:			
Subscription	$ 1,242,563	$ 877,035	42%
Professional services and other	144,093	127,812	13%
Total revenues	$ 1,386,656	$ 1,004,847	38%
Percentage of revenues:			
Subscription	90%	87%	
Professional services and other	10%	13%	
Total	100%	100%	

Subscription revenues increased $365.5 million during the nine months ended September 30, 2017, compared to the same period in the prior year, driven by our upsells and an increase in our customer count.

Subscription revenues consist of the following:

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Service Management solutions	$ 1,097,177	$ 799,278	37%
IT Operations Management solutions	145,386	77,757	87%
Total subscription revenues	$ 1,242,563	$ 877,035	42%

Our Service Management solutions include ServiceNow Platform, IT Service Management, IT Business Management, Customer Service, Human Resources and Security Operations, which have similar features and functions and are generally priced on a per user basis. Our IT Operations Management solutions, which improve visibility, availability and agility of enterprise services, are generally priced on a per node basis.

Professional services and other revenues increased $16.3 million during the nine months ended September 30, 2017, compared to the same period in the prior year, due to an increase in the services provided to our growing customer base. Included within our total professional services and other revenues are the revenues from our annual Knowledge user conference, which increased to $17.1 million for the nine months ended September 30, 2017 from $12.8 million for the nine months ended September 30, 2016 due to an increase in attendance and sponsorship fees in the current year.

Our international operations have provided and will continue to provide a significant portion of our total revenues. Revenues outside North America represented 32% and 32% of total revenues for the nine months ended September 30, 2017 and 2016, respectively. As a result, the general strengthening of the U.S. Dollar relative to other major foreign currencies (primarily the Euro and British Pound Sterling) from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 had an unfavorable impact on our revenues. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the nine months ended September 30, 2017 at the exchange rates for the nine months ended September 30, 2016 rather than the actual exchange rates in effect during the period, our reported subscription revenues would have been $6.6 million higher. The impact from the foreign currency movements from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 is not material to professional services and other revenues.

Cost of Revenues and Gross Profit Percentage

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$ 228,046	$ 170,707	34%
Professional services and other	137,366	123,039	12%
Total cost of revenues	$ 365,412	$ 293,746	24%
Gross profit percentage:			
Subscription	82%	81%	
Professional services and other	5%	4%	
Total gross profit percentage	74%	71%	
Gross Profit	$ 1,021,244	$ 711,101	
Headcount (at period end)			
Subscription	886	691	28%
Professional services and other	555	504	10%
Total headcount	1,441	1,195	21%

Cost of subscription revenues increased $57.3 million during the nine months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $22.5 million in personnel-related costs excluding stock-based compensation, an increase of $5.3 million in overhead expenses and an increase of $5.2 million in stock-based compensation. In addition, there was an increase of $12.9 million in depreciation expense primarily due to purchases of infrastructure hardware equipment for our data centers, an increase of $5.2 million in data center capacity costs due to the addition of new data centers and the expansion of existing data centers and an increase of $1.6 million in amortization of intangibles as a result of acquisitions. Service and technical support agreement costs increased $2.0 million and outside service costs increased $1.0 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to an increase in contractors and consultants to support our subscription services.

Our subscription gross profit percentage increased to 82% for the nine months ended September 30, 2017, from 81% for the nine months ended September 30, 2016, due to improved data center utilization and economies of scale.

Cost of professional services and other revenues increased $14.3 million during the nine months ended September 30, 2017 as compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $7.2 million in personnel-related costs excluding stock-based compensation and an increase of $1.6 million in stock-based compensation. Outside service costs increased $4.9 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased utilization of contracted third-party partners for the implementation and configuration of our subscription services.

Our professional services and other gross profit percentage increased to 5% for the nine months ended September 30, 2017, from 4% for the nine months ended September 30, 2016, primarily due to the increase in revenues from our annual Knowledge user conference. Costs associated with Knowledge are included in sales and marketing expenses. Knowledge contributed $17.1 million to professional services and other revenues, or 13 percentage points, to the professional services and other gross profit percentage for the nine months ended September 30, 2017. For the nine months ended September 30, 2016, Knowledge contributed $12.8 million to professional services and other revenues, and 11 percentage points to the professional services and other gross profit percentage.

The general strengthening of the U.S. Dollar relative to other major foreign currencies from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 had a favorable impact on our cost of revenues. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the nine months ended September 30, 2017 at the exchange rates for the nine months ended September 30, 2016 rather than the actual exchange rates in effect during the period, our cost of revenues reported would have been $1.4 million higher.

Sales and Marketing

	Nine Months Ended September 30,		
	2017	**2016**	**% Change**
	(dollars in thousands)		
Sales and marketing	$ 686,325	$ 511,607	34%
Percentage of revenues	49%	51%	
Headcount (at period end)	2,279	1,740	31%

Sales and marketing expenses increased $174.7 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased headcount that resulted in an increase of $86.1 million in personnel-related costs excluding stock-based compensation and commissions, an increase of $28.9 million in stock-based compensation and an increase of $14.8 million in overhead expenses. Commissions and third-party referral fees increased $20.7 million and amounted to 7% of subscription revenues for each of the nine months ended September 30, 2017 and 2016. Expenses related to our annual Knowledge user conference increased $8.2 million, from $24.0 million for the nine months ended September 30, 2016 to $32.2 million for the nine months ended September 30, 2017, due to an increase in registrations by 29% year-over-year. Other marketing program expenses, which include events other than Knowledge, advertising and market data, increased $10.5 million during the nine months ended September 30, 2017 compared to the same period in the prior year. Outside services costs increased $3.9 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to an increase in contractors and consultants to support our sales and marketing functions.

The general strengthening of the U.S. Dollar relative to other major foreign currencies from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 had a favorable impact on our sales and marketing expenses. For entities reporting in currencies other than the U.S. Dollar, if we had translated our results for the nine months ended September 30, 2017 at the exchange rates for the nine months ended September 30, 2016 rather than the actual exchange rates in effect during the period, our reported sales and marketing expenses would have been $1.7 million higher.

Research and Development

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Research and development	$ 272,959	$ 211,306	29%
Percentage of revenues	19%	21%	
Headcount (at period end)	1,322	970	36%

Research and development expenses increased $61.7 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to increased headcount, which resulted in an increase of $42.3 million in personnel-related costs excluding stock-based compensation, an increase of $9.3 million in overhead expenses and an increase of $4.7 million in stock-based compensation. Outside service costs increased $2.7 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to an increase in contractors and consultants that support our research and development functions.

The impact from the foreign currency movements from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 is not material to research and development expenses.

General and Administrative

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
General and administrative	$ 150,242	$ 117,393	28%
Percentage of revenues	12%	12%	
Headcount (at period end)	853	596	43%

General and administrative expenses increased $32.8 million during the nine months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount, which resulted in an increase of $13.7 million in stock-based compensation, an increase of $15.3 million in personnel-related costs excluding stock-based compensation and an increase of $1.5 million in overhead expenses. Software subscription costs increased $3.1 million to support our administrative functions.

The impact from the foreign currency movements from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 is not material to general and administrative expenses.

Legal Settlements

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Legal settlements	$ —	$ 270,000	NM
Percentage of revenues	NM	27%	

NM - Not meaningful.

Legal settlements decreased $270.0 million during the nine months ended September 30, 2017 compared to the same period in the prior year, reflecting the settlement agreements we entered into with HPE and BMC during the prior year. Refer to Note 15 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details.

Stock-based Compensation

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$ 25,860	$ 20,698	25%
Professional services and other	21,622	20,045	8%
Sales and marketing	124,650	95,757	30%
Research and development	67,624	62,956	7%
General and administrative	48,695	35,004	39%
Total stock-based compensation	$ 288,451	$ 234,460	23%
Percentage of revenues	21%	23%	

Stock-based compensation increased $54.0 million during the nine months ended September 30, 2017, compared to the same period in the prior year, primarily due to increased headcount and increased weighted-average grant date fair value of stock awards.

Interest Expense

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Interest expense	$ 36,581	$ 24,746	48%
Percentage of revenues	3%	2%	

Interest expense increased $11.8 million during the nine months ended September 30, 2017 compared to the same period in the prior year, due to the increase in amortization expense of debt discount and issuance costs related to the convertible notes.

Interest Income and Other Income (Expense), net

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Interest income	$ 10,268	$ 5,838	76%
Foreign currency exchange loss	(10,280)	(1,262)	715%
Other	751	169	344%
Interest and other income (expense), net	$ 739	$ 4,745	NM
Percentage of revenues	—%	—%	

NM - Not meaningful.

Interest income and other income (expense), net decreased $4.0 million during the nine months ended September 30, 2017 compared to the same period in the prior year, primarily due to higher foreign exchange losses, partially offset by increased interest income. We had foreign exchange losses of $10.3 million for the nine months ended September 30, 2017 compared to losses of $1.3 million for the nine months ended September 30, 2016 as a result of fluctuations in foreign currency exchange rates. Interest income increased $4.4 million due to higher cash balances and higher yields on our invested balances for the nine months ended September 30, 2017.

Provision for (Benefit from) Income Taxes

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Loss before income taxes	$ (124,124)	$ (419,206)	(70)%
Provision for (benefit from) income taxes	(2,801)	9	NM
Effective tax rate	2%	— %	

NM - Not meaningful.

Our effective tax rate was 2% for the nine months ended September 30, 2017 compared to 0% for the nine months ended September 30, 2016 primarily due to a release of the valuation allowance in connection with acquisitions, excess tax benefits of stock-based compensation and the tax effects of unrealized gains in investment securities.

Net Loss

	Nine Months Ended September 30,		
	2017	2016	% Change
	(dollars in thousands)		
Net loss	$ (121,323)	$ (419,215)	(71)%
Percentage of revenues	(9)%	(42)%	

Net loss decreased $297.9 million during the nine months ended September 30, 2017 compared to the same period in the prior year, reflecting the settlement agreements we entered into with HPE and BMC during the prior year. Refer to Note 15 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further details.

Liquidity and Capital Resources

As of September 30, 2017, our principal sources of liquidity were $1.7 billion in cash and cash equivalents and short-term investments, of which $289.7 million represented cash held by foreign subsidiaries. $159.5 million of the $1.7 billion are denominated in currencies other than U.S. Dollar. In addition, we had $424.9 million in long-term investments that provide additional capital resources. We consider earnings from foreign operations to be indefinitely reinvested outside of the United States, and we do not anticipate that we will need funds generated from foreign operations to fund our domestic operations.

In November 2013, we issued the 2018 Notes with an aggregate principal amount of $575.0 million. The 2018 Notes mature on November 1, 2018 unless converted or repurchased in accordance with their terms prior to such date. In connection with the issuance of the 2018 Notes, we entered into 2018 Note Hedge transactions and 2018 Warrant transactions with certain financial institutions (the option counterparties). We may elect to settle the 2018 Notes in cash, shares of our common stock, or a combination of cash and shares. If the 2018 Note Hedges are exercised, we may elect to receive cash, shares of our common stock, or a combination of cash and shares. The impact of the conversion of the 2018 Notes on our liquidity will depend on the settlement method we elect for each instrument described above. We currently intend to settle the principal amount of any converted 2018 Notes in cash. To the extent we receive conversion requests, we may also record a loss on extinguishment of the 2018 Notes converted by noteholders based on the difference between the fair market value allocated to the liability component on settlement date and the net carrying amount of the liability component and unamortized debt issuance costs on settlement date. Refer to Note 9 in the notes to our condensed consolidated financial statements and the risk factors included elsewhere in this Quarterly Report on Form 10-Q for additional information on the 2018 Notes, the 2018 Note Hedges and the 2018 Warrants.

For at least 20 trading days during the 30 consecutive trading days ended June 30, 2017 and September 30, 2017, our common stock traded at a price exceeding 130% of the conversion price of $73.88 per share applicable to our 2018 Notes. Accordingly, the 2018 Notes became convertible at the holders’ option during the quarter ended September 30, 2017 and will continue to be convertible at the holders' option for the quarter ending December 31, 2017. During the quarter ended September 30, 2017, we received requests to convert an aggregate of $4,000 principal amount of 2018 Notes, which we have elected to settle in cash.

During the three months ended June 30, 2017, we issued the 2022 Notes with an aggregate principal amount of $782.5 million. We currently intend to use approximately $575.0 million of the net proceeds from the 2022 Notes to repay the 2018 Notes. In connection with the issuance of the 2022 Notes, we entered into 2022 Note Hedge transactions and 2022 Warrant transactions with certain financial institutions. Refer to Note 9 in the notes to our condensed consolidated financial statements and the risk factors included elsewhere in this Quarterly Report on Form 10-Q for additional information on the 2022 Notes, the 2022 Notes Hedges and the 2022 Warrants. In addition, in May 2017, we used approximately $55.0 million of the net proceeds from the 2022 Notes to repurchase shares of our common stock sold by certain purchasers of the 2022 Notes and during the three months ended June 30, 2017, we used approximately $73.9 million to pay the cost of the 2022 Note Hedges (after such cost was partially offset by the proceeds of the 2022 Warrants).

We anticipate our current cash and cash equivalents balance and cash generated from operations will be sufficient to meet our liquidity needs, including the expansion of data centers, lease obligations, expenditures related to the growth of our headcount and the acquisition of fixed assets, intangibles, and investments in office facilities, to accommodate our growth for at least the next 12 months. Whether these resources are adequate to meet our liquidity needs beyond that period will depend on our growth, operating results, cash utilized for acquisitions and/or debt retirements if any are consummated, and the capital expenditures required to meet possible increased demand for our services. If we require additional capital resources to grow our business at any time in the future, we may seek to finance our operations from the current funds available or seek additional equity or debt financing.

	Nine Months Ended September 30,	
	2017	2016
	(dollars in thousands)	
Net cash provided by operating activities	$ 458,039	$ 27,234
Net cash used in investing activities	(366,403)	(79,138)
Net cash provided by (used in) financing activities	586,118	(34,865)
Net increase (decrease) in cash and cash equivalents, net of foreign currency effect on cash and cash equivalents	703,633	(87,238)

Operating Activities

Cash provided by operating activities mainly consists of our net loss adjusted for certain non-cash items, including depreciation and amortization, amortization of premiums on investments, amortization of deferred commissions, amortization of issuance cost and debt discount, stock-based compensation and changes in operating assets and liabilities during the year.

Net cash provided by operating activities was $458.0 million for the nine months ended September 30, 2017 compared to $27.2 million for the nine months ended September 30, 2016. The increase in operating cash flow was primarily due to a decrease in net loss of $297.9 million. The remaining change was due to an increase in non-cash adjustments to reconcile net loss to net cash provided by operations and the favorable impact on operating cash flow from changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2017 was $366.4 million compared to $79.1 million for the nine months ended September 30, 2016. The increase in cash used in investing activities was mainly due to a $263.4 million increase in net purchases of investments, a $31.7 million increase in capital expenditures related to purchases of infrastructure hardware equipment to support the expansion of our data centers as well as investments in leasehold improvements, furniture and equipment to support our headcount growth and a $4.0 million increase in purchases of strategic investments. The increase in cash used in investing activities was partially offset by a $7.8 million decrease in business combinations, net of cash acquired and a $4.6 million decrease in purchase of other intangibles.

Financing Activities

Net cash provided by financing activities was $586.1 million for the nine months ended September 30, 2017 compared to net cash used in financing activities of $34.9 million for the nine months ended September 30, 2016. The change was primarily due to a $698.2 million increase in net proceeds from issuance of the 2022 Notes and the related note hedge and warrant transactions entered into during the nine months ended September 30, 2017 and a $21.7 million increase in proceeds from employee stock plans, partially offset by a $55.0 million increase in cash used to repurchase shares of our common stock and a $42.6 million increase in taxes paid related to net share settlement of equity awards.

Contractual Obligations and Commitments

Except as set forth in Note 15, Commitments and Contingencies, of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, there have been no material changes outside the ordinary course of business in the contractual obligations and commitments disclosed in our Annual Report on 10-K for the year ended December 31, 2016.

Off-Balance Sheet Arrangements

During all periods presented, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as the reported revenues and expenses during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions and such differences could be material.

There have been no material changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 28, 2017.

New Accounting Pronouncements Pending Adoption

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

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Except as set forth below, there have been no material changes in our market risk as compared to the disclosures in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2016, which was filed with the SEC on February 28, 2017.

Convertible Notes

In November 2013, we issued the 2018 Notes with an aggregate principal amount of $575.0 million, and in May and June 2017, we issued the 2022 Notes with an aggregate principal amount of $782.5 million. We carry these instruments at face value less unamortized discount on our consolidated balance sheet. Because these instruments do not bear interest, we have no financial statement risk associated with changes in interest rates. However, the fair value of fixed rate instruments fluctuates when interest rates change, and in the case of convertible notes, when the market price of our stock fluctuates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Exchange Act require public companies, including our company, to maintain “disclosure controls and procedures,” which are defined in Rule 13a-15(e) and Rule 15d-15(e) to mean a company’s controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required or necessary disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of the end of the quarter covered by this Quarterly Report on Form 10-Q, that our disclosure controls and procedures were effective at the reasonable assurance level for this purpose.

Changes in Internal Control Over Financial Reporting

Regulations under the Exchange Act require public companies, including our company, to evaluate any change in our “internal control over financial reporting” as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. In connection with their evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the quarter covered by this Quarterly Report on Form 10-Q that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making an investment decision. We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and future prospects. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We expect our revenue growth rate to continue to decline, and we expect to continue to incur losses in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

We have experienced significant revenue growth in prior periods; however, our revenue growth rate is declining, and we expect that it will continue to decline into the foreseeable future. We also expect our costs to increase in future periods as we continue to invest in our capacity to support anticipated growth. These investments may not result in increased revenues or growth in our business. Even if our revenues continue to increase, we expect to continue to incur a loss in accordance with GAAP during future periods due to increased costs such as non-cash charges associated with equity awards, business combinations and other expenses. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unforeseen or unpredictable factors that may result in increased costs. Furthermore, it is difficult to predict the size and growth rate of our market, customer demand for our products, customer adoption and renewal rates, and the entry of competitive products or the success of existing competitive products. As a result, we may not achieve or maintain profitability in the future, our gross margins may be negatively impacted, and our ability to generate cash flow from operations may be negatively impacted. If we fail to grow our revenues sufficiently to keep pace with our growing investments and other expenses, our business, operating results and growth prospects will be adversely affected.

We have recently introduced products in new markets that are important to our growth prospects and for which we do not have a substantial operating history. If we are unsuccessful in competing in these new markets, our revenue growth rate, business and operating results will be adversely affected.

We have recently introduced products in the markets for IT operations management, customer service, security operations, HR service management and the use of our platform for other service management applications outside of enterprise IT. Our successful entry into these and other new markets is important to our revenue growth prospects. We do not have a substantial operating history with these products, which limits our ability to forecast operating results, and the success of our efforts to address these markets depends on many factors, including: the degree of differentiation of our products and services from those offered by more established competitors in these markets; whether our product and services offer compelling benefits and value to customers; the time-frame and quality of our research and development efforts; the rigor and effectiveness of our quality testing and controls; and our ability to successfully market and sell into new markets with which our marketing and sales personnel are less experienced. We may not have the necessary resources, including employees with the required product management, engineering, marketing and sales expertise, to compete effectively in these new markets. Any new service that we develop may not be introduced in a timely or cost-effective manner, may not be priced appropriately, may not offer compelling customer benefits compared to competing products and services, and may not achieve the broad market acceptance necessary to generate significant revenues. In addition, the partner ecosystem for some of our new products is less developed than for our more mature products, and some of our new products require a commitment of resources and expertise by our customers, which they may lack, to ensure a successful implementation. If we are not able to successfully develop, market, sell and implement these and other newly introduced products and services to our existing customers and prospective new customers, our revenue growth rate, business and operating results will be adversely affected.

If we suffer a cyber-security event, we may lose customers and incur significant liabilities, any of which would harm our business and operating results.

Our operations involve the storage, transmission and processing of our customers' confidential, proprietary and sensitive information, including in some cases personally identifiable information, protected health information and credit card and other sensitive financial information. While we have security measures in place designed to protect customer information and prevent data loss, these measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise, and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information. Moreover, computer malware, viruses and hacking, phishing and denial of service attacks by third parties have become more prevalent in our industry, and have occurred on our systems in the past and may occur on our systems in the future. Because techniques used to obtain unauthorized access to or sabotage systems change frequently and generally are not recognized until successfully launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. As cyber-security threats develop and grow, it may be necessary to make significant further investments to protect data and infrastructure. A security breach or unauthorized access or loss of data could result in a disruption to our service, litigation, the triggering of indemnification and other contractual obligations, regulatory investigations, government fines and penalties, reputational damage, loss of sales and customers, mitigation and remediation expenses and other liabilities. We do not have insurance sufficient to compensate us for the potentially significant losses that may result from security breaches.

Disruptions or defects in our services could damage our customers' businesses, subject us to substantial liability and harm our reputation and financial results.

From time to time, we experience defects in our services, and new defects may be detected in the future. For example, we provide regular updates to our services, which frequently contain undetected defects when first introduced or released. Defects may also be introduced by our use of third-party software, including open source software. Disruptions may result from errors we make in delivering, configuring or hosting our services, or designing, installing, expanding or maintaining our cloud infrastructure. Disruptions in service can also result from incidents that are outside of our control, including denial of service attacks. We currently serve our customers primarily using equipment managed by us and co-located in third-party data center facilities operated by several different providers located around the world. These centers are vulnerable to damage or interruption from earthquakes, floods, fires, power loss and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, equipment failure and adverse events caused by operator error. Despite precautions taken at these facilities, problems at these facilities could result in lengthy interruptions in our services and the loss of customer data. In addition, our customers may use our services in ways that cause disruptions in service for other customers. Our customers use our services to manage important aspects of their own businesses, and our reputation and business will be adversely affected if our customers and potential customers believe our services are unreliable. Disruptions or defects in our services may reduce our revenues, cause us to issue credits or pay penalties, subject us to claims and litigation, cause our customers to delay payment or terminate or fail to renew their subscriptions, and adversely affect our ability to attract new customers. The occurrence of payment delays, or service credit, warranty, termination for material breach or other claims against us, could result in an increase in our bad debt expense, an increase in collection cycles for accounts receivable, an increase to our warranty provisions or service level credit accruals or other increased expenses or risks of litigation. We do not have insurance sufficient to compensate us for the potentially significant losses that may result from claims arising from disruptions in our services.

Our stock price can be volatile, including if we fail to meet the financial performance expectations of investors or securities analysts, and the price of our common stock could decline substantially.

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. For any quarterly or annual period, there is a risk that our financial performance will not meet the financial guidance we have previously given for that period, or that we may otherwise fail to meet the financial performance expectations of the securities analysts who issue reports on our company and our common stock price, or of investors in our common stock. There is also a risk that we may issue forward-looking financial guidance for a quarterly or annual period that fails to meet the expectations of such securities analysts or investors. If any of the foregoing occurs, for any reason either within or outside of our control, the price of our common stock could decline substantially and investors in our common stock could incur substantial losses. Some of the important factors that may cause our revenues, operating results and cash flows, or our forward-looking financial guidance, to fall below the expectations of such securities analysts or investors, or otherwise cause our stock price to be volatile, include:

- our ability to attract new customers, retain and increase sales to existing customers, and satisfy our customers' requirements;
- changes in our mix of products and services;
- changes in foreign currency exchange rates;
- the rate of expansion and productivity of our sales force;
- the number of new employees added;
- the cost, timing and management effort for our development of new products and services;
- general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions, delay a prospective customer's purchasing decision, reduce the value of new subscription contracts or adversely affect renewal rates;
- the amount and timing of operating costs and capital expenditures related to the operation and expansion of our business;
- seasonality in terms of when we enter into customer agreements for our services;
- the length of the sales cycle for our services;
- changes to our management team;
- changes in our pricing policies, whether initiated by us or as a result of competition;
- significant security breaches, technical difficulties or interruptions of our services;
- new solutions, products or changes in pricing policies introduced by our competitors;
- changes in effective tax rates;
- changes in the average contract term of our customer agreements and changes in billings duration;
- changes in our renewal and upsell rates;
- the timing of customer payments and payment defaults by customers;
- extraordinary expenses such as litigation costs or damages, including settlement payments;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integration, including the tax effects of acquisitions;
- the impact of new accounting pronouncements, including the new revenue recognition standards that are effective for us beginning January 1, 2018;
- changes in laws or regulations impacting the delivery of our services;
- the amount and timing of stock awards and the related financial statement expenses; and
- our ability to accurately estimate the total addressable market for our products and services.

Unanticipated changes in our effective tax rate could impact our financial results.

We are subject to income taxes in the United States and various foreign jurisdictions. We believe that our provision for income taxes is reasonable, but the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods in which such determination is made. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, the valuation of deferred tax assets and liabilities and the effects of acquisitions. Increases in our effective tax rate would reduce our profitability or in some cases increase our losses.

Additionally, our future effective tax rate could be impacted by changes in accounting principles, changes in U.S. federal, state or international tax laws or tax rulings. For example, the current U.S. administration and key members of Congress have made public statements indicating that tax reform is a priority. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the United States until those earnings are repatriated to the United States, could affect the tax treatment of our foreign earnings. Many countries are actively considering changes to existing tax laws or have proposed or enacted new laws, such as legislation recently enacted in the United Kingdom and in Australia. In October 2015, the Organization for Economic Co-Operation and Development released guidance, and is expected to continue to issue guidance and proposals, that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business and which could ultimately impact our tax liabilities. Any changes in federal, state or international tax laws or tax rulings may increase our worldwide effective tax rate and harm our financial position and results of operations.

In addition, we may be subject to income tax audits by tax jurisdictions throughout the world, many of which have not established clear guidance on the tax treatment of cloud computing companies. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

Our financial results may be adversely affected by changes in accounting principles applicable to us.

We prepare our financial statements in accordance with GAAP, which are subject to interpretation or changes by the Financial Accounting Standards Board (FASB), the SEC and other bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future, which may have a significant effect on our financial results. For example, in May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes nearly all existing revenue recognition guidance under GAAP. Under this new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. This new standard is effective for our interim and annual periods beginning January 1, 2018, and we expect this new standard to have a material impact on the timing of revenue and expense recognition for our contracts related to on-premises offerings and on our deferred commissions asset and the related amortization expense. We are continuing to evaluate the impact of the adoption of this standard on our condensed consolidated financial statements, and our preliminary assessments are subject to change. Refer to Note 2 in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information on the new guidance and its potential impact on us. Adoption of this standard and any difficulties in implementation of changes in accounting principles, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors’ confidence in us.

Foreign currency exchange rate fluctuations could harm our financial results.

We conduct significant transactions, including revenue transactions and intercompany transactions, in currencies other than the U.S. Dollar or the functional operating currency of the transactional entities. In addition, our international subsidiaries maintain significant net assets that are denominated in currencies other than the functional operating currencies of these entities. Accordingly, changes in the value of currencies relative to the U.S. Dollar may impact our consolidated revenues and operating results due to transactional and translational remeasurement that is reflected in our earnings. It is particularly difficult to forecast any impact from exchange rate movements, so there is risk that unanticipated currency fluctuations could adversely affect our results or cause our results to differ from investor expectations or our own guidance in any future periods. In addition, the June 23, 2016 referendum by British voters to exit the European Union adversely impacted global markets, including currencies, and resulted in a decline in the value of the British pound, as compared to the U.S. Dollar and other currencies. Volatility in exchange rates and global financial markets may continue due to a number of factors, including the continued negotiation of the United Kingdom's exit from the European Union and the recent political and economic uncertainty globally.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

The markets in which we participate are intensely competitive, and if we do not compete effectively our business and operating results will be adversely affected.

The markets for our enterprise cloud solutions are rapidly evolving and highly competitive, with relatively low barriers to entry. As the market for service management matures, we expect competition to intensify. We compete primarily with large, well-established, enterprise application software vendors, in-house solutions, large integrated systems vendors, and established and emerging cloud vendors. Our primary competitors include BMC Software, Inc., Microsoft Corporation, Oracle Corporation, SAP and Salesforce.com. Many prospective customers have invested substantial personnel and financial resources to implement and integrate their current enterprise software into their businesses and therefore may be reluctant or unwilling to migrate away from their current solution to an enterprise cloud solution. Many of our competitors and potential competitors are larger, have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and greater resources than we do. Further, other potential competitors not currently offering competitive products may expand their services to compete with our services. As we expand the breadth of our services to include offerings in the markets for IT operations management, customer service management, security operations management, HR service management and use of our platform for other service management applications outside of enterprise IT, we expect increasing competition from platform vendors and from application development vendors focused on these other markets. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards and customer requirements. In addition, some of our competitors offer their products or services at a lower price, which has resulted in pricing pressures. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions. We expect that smaller competitors and new entrants may accelerate pricing pressure, including in the IT service management market, which is our more mature offering and from which we derive the substantial majority of our revenues. For all of these reasons, we may not be able to compete successfully and competition could result in reduced sales, reduced margins, losses or the failure of our solutions to achieve or maintain market acceptance, any of which could harm our business.

Lawsuits against us by third-parties that allege we infringe their intellectual property rights could harm our business and operating results.

There is considerable patent and other intellectual property development activity in our industry. Many companies in our industry, including our competitors and other third parties, as well as non-practicing entities, own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims of patent infringement, misappropriation or other violations of intellectual property rights against us.

Moreover, the patent portfolios of most of our competitors are larger than ours. This disparity may increase the risk that our competitors may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. From time to time, our competitors or other third parties, including patent holding companies seeking to monetize patents they have purchased or otherwise obtained, may claim that we are infringing upon their intellectual property rights. For example, we recorded charges for aggregate legal settlements of $270.0 million in our condensed consolidated statement of comprehensive loss during the three months ended March 31, 2016. The charge covers the fulfillment by us of all financial obligations under settlement agreements with BMC and HPE, with no remaining financial obligations under either settlement.

In any intellectual property litigation, regardless of the scope or merits of the claims at issue, we may incur substantial attorney’s fees and other litigation expenses and, if the claims are successfully asserted against us and we are found to be infringing upon the intellectual property rights of others, we could be required to: pay substantial damages and make substantial ongoing royalty payments; cease offering our products and services; modify our products and services; comply with other unfavorable terms, including settlement terms; and indemnify our customers and business partners and obtain costly licenses on their behalf and refund fees or other payments previously paid to us. Moreover, the mere existence of any lawsuit, or any interim or final outcomes, and the course of its conduct and the public statements related to it (or absence of such statements) by the courts, press, analysts and litigants, could be unsettling to our customers and prospective customers and could cause an adverse impact to our customer satisfaction and related renewal rates and cause us to lose potential sales, and could also be unsettling to investors or prospective investors in our common stock and could cause a substantial decline in the price of our common stock. Accordingly, any claim or litigation against us could be costly, time-consuming and divert the attention of our management and key personnel from our business operations and harm our financial condition and operating results.

Our intellectual property protections may not provide us with a competitive advantage, and defending our intellectual property may result in substantial expenses that harm our operating results.

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand under a combination of patent and other intellectual property laws of the United States and other jurisdictions. Though we seek patent protection for our technology, we may not be successful in obtaining patent protection, and any patents acquired in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Any of our intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. We may be required to spend significant resources to monitor and protect our intellectual property rights. We have, and in the future may, initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us, divert the efforts of our technical and management personnel and may result in counter-claims with respect to infringement of intellectual property rights by us. If we are unable to prevent third parties from infringing upon or misappropriating our intellectual property, or are required to incur substantial expenses in defending our intellectual property rights, our business and operating results may be adversely affected.

If we are unsuccessful in increasing our penetration of international markets or managing the risks associated with foreign markets, our business and operating results will be adversely affected.

Sales outside of North America represented approximately 34% and 32% of our total revenues for each of the three and nine months ended September 30, 2017, respectively. Our business and future prospects depend on increasing our international sales as a percentage of our total revenues, and the failure to grow internationally will harm our business. Additionally, operating in international markets requires significant investment and management attention and will subject us to regulatory and economic risks that are different from those in the United States. We have made, and will continue to make, substantial investments in data centers and cloud computing infrastructure, sales, marketing, personnel and facilities as we enter and expand in new geographic markets. When we make these investments, it is typically unclear whether, and when, sales in the new market will justify our investments, and we may significantly underestimate the level of investment and time required to be successful, or whether we will be successful. Our rate of acquisition of new Global 2000 customers, a key factor effecting our growth, has generally been lower in Africa, Asia, Eastern Europe, South America and other markets in which we are less established, as compared to North America, Australia and areas within Western Europe. Over time an increasing proportion of the Global 2000 companies that are not yet our customers are located in emerging markets where we are less established. We have experienced, and may continue to experience, difficulties in some of our investments in geographic expansion, including in hiring qualified sales management personnel and managing foreign operations.

Risks inherent with international sales include without limitation:

- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, competition, privacy and data protection laws and regulations;
- compliance by us and our business partners with international bribery and anti-corruption laws, including the UK Bribery Act and the Foreign Corrupt Practices Act;
- the risk that illegal or unethical activities of our business partners will be attributed to or result in liability to us;
- longer and potentially more complex sales cycles;
- longer accounts receivable payment cycles and other collection difficulties;
- tax treatment of revenues from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions;
- different pricing and distribution environments;
- foreign currency fluctuations which may cause transactional and translational remeasurement losses;
- potential changes in international trade policies and agreements;
- local business practices and cultural norms that may favor local competitors; and
- localization of our services, including translation into foreign languages and associated expenses.

If we are unable to manage these risks, if our required investments in these international markets are greater than anticipated, or if we are unsuccessful in increasing sales in emerging markets, our revenue growth rate, business and operating results will be adversely affected.

If we are unable to continuously enhance our products and services so that they are easy to implement and use and are capable of delivering consumer product-like experiences, they could become less competitive or obsolete and our business and operating results will be adversely affected.

We believe that enterprises are increasingly focused on purchasing products and services that are easy to implement and use and are capable of delivering consumer product-like technology experiences to users within the enterprise, such as employees, and to individuals interacting with the enterprise, such as customers, partners and suppliers. Accordingly, our ability to attract new customers and to renew and increase revenues from existing customers depends on our ability to continuously improve the ease with which our products can be implemented and used by enterprises to deliver simple, intuitive and consumer-grade user experiences. In particular, we need to continuously modify and improve our products and services to keep pace with changes in user expectations, including for intuitive and attractive consumer product-like interfaces that draw on machine learning, mobility features and other cutting-edge technologies. If we are unable to consistently and timely meet these requirements, our products and services may become less marketable and less competitive or obsolete, and our business and operating results will be adversely affected.

If we lose key employees or are unable to attract and retain the employees we need, our business and operating results will be adversely affected.

Our success depends largely upon the continued services of our management team and many key individual contributors. From time to time, there may be changes in our management team resulting from the hiring or departure of employees, which could disrupt our business. For example, in 2016, our founder, Frederic Luddy, stepped down as our Chief Product Officer, and Daniel R. McGee stepped down as our Chief Operating Officer. In 2017, Frank Slootman stepped down as our President and Chief Executive Officer, and John J. Donahoe was appointed as his successor. Although Messrs. Luddy and Slootman continue to serve as members of our board of directors, these or other changes in our executive management team may result in a loss of institutional knowledge and cause disruptions to our business.

In the technology industry, there is substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related solutions, as well as competition for sales executives and operations personnel. We may not be successful in attracting and retaining qualified personnel. We have from time to time experienced, and we may continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In particular, competition for experienced software and cloud computing infrastructure engineers in the San Francisco Bay area, San Diego, Seattle, London and Amsterdam, our primary operating locations, is intense. Our employees, including our executive officers, are employed by us on an “at-will” basis, which means they may terminate their employment with us at any time. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

Privacy laws and concerns, evolving regulation of cloud computing, cross-border data transfer restrictions, other foreign and domestic regulations and standards related to personal data and the Internet may adversely affect our business.

National and local governments or agencies have in the past adopted, and may in the future adopt, laws and regulations affecting data privacy, the use of the Internet as a commercial medium, and data sovereignty requirements concerning the location of data centers that store and process data. Changing laws, regulations and standards applying to the collection, transfer, processing, storage or use of personal data could affect our customers’ ability to use and share data, potentially restricting our ability to store, process and share data with our customers in connection with providing our services, and in some cases, could impact our ability to offer our services in certain locations or our customers’ ability to deploy our services globally. For example, the European Union (EU) and United States agreed to a framework to facilitate the transfer of data from the EU to the United States, called Privacy Shield, but this new framework has been challenged by private parties and may face additional challenges by national regulators or private parties. Additionally, in 2016 the EU adopted a new regulation governing data privacy called the General Data Protection Regulation (GDPR), that takes effect in May 2018. Further, laws such as the EU’s proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals’ online activities.

The costs of compliance with, and other burdens imposed by, GDPR, the e-Privacy Regulation and other privacy laws, regulations and standards may cause us to incur substantial operational costs or require us to modify our data handling practices, may limit the use and adoption of our services and reduce overall demand for our services. In addition, non-compliance could result in proceedings against us by governmental entities or others and may otherwise adversely impact our business, financial condition and operating results.

In addition to government activity, privacy advocacy groups and the technology and other industries have established or may establish various new, additional or different self-regulatory standards that may place additional burdens on us. Our customers may expect us to meet voluntary certifications or adhere to other standards established by third parties. If we are unable to maintain these certifications or meet these standards, it could reduce demand for our applications and adversely affect our business.

Because we recognize revenues from our subscription service over the subscription term, a decrease in new or renewed subscriptions during a reporting period may not be immediately reflected in our operating results for that period.

We generally recognize revenues from customers ratably over the terms of their subscriptions. As a result, most of the revenues we report in each period are derived from the recognition of deferred revenues relating to subscriptions entered into during previous periods. Consequently, a decrease in new or renewed subscriptions in any single reporting period will have a limited impact on our revenues for that period.

Further, a decline in new or renewed subscriptions in a given period will negatively affect our revenues in future periods. Accordingly, the effect of significant downturns in sales and market acceptance of our services, and changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable subscription term. In addition, we may be unable to adjust our cost structure to reflect the changes in revenues.

A decrease in new or renewed subscriptions in a reporting period may not be immediately reflected in our billings results for that period due to factors that may offset the decrease.

A decrease in new or renewed subscriptions in a reporting period may not have an immediate impact on billings for that period due to factors that may offset the decrease, such as an increase in billings duration, the dollar value of contracts with future start dates, or the dollar value of collections in the current period related to contracts with future start dates.

As we acquire or invest in companies and technologies, we may not realize the expected business or financial benefits and the acquisitions and investments may divert our management's attention and result in additional dilution to our stockholders.

We have acquired or invested in companies and technologies in the past as part of our business strategy and may continue to evaluate potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our service offerings, functionality or our ability to provide services in international locations, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. Acquisitions and investments involve numerous risks, including:

- assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies;
- failing to achieve the expected benefits of the acquisition or investment;
- potential loss of key employees of the acquired company;
- inability to maintain relationships with customers and partners of the acquired business;
- unanticipated expenses related to acquired technology and its integration into our existing technology;
- potential adverse tax consequences;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- disruption to our business and diversion of management attention and other resources;
- potential financial and credit risks associated with acquired customers;
- dependence on acquired technologies or licenses for which alternatives may not be available to us without significant cost or complexity;
- in the case of foreign acquisitions, the challenges associated with integrating operations across different cultures and languages and any currency and regulatory risks associated with specific countries; and
- potential unknown liabilities associated with the acquired businesses.

In addition, we may have to pay cash, incur debt, or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our common stock. Furthermore, if we finance acquisitions by issuing equity or convertible or other debt securities or loans, our existing stockholders may be diluted, or we could face constraints related to the terms of and repayment obligation related to the incurrence of indebtedness that could affect the market price of our common stock. The occurrence of any of these risks could harm our business, operating results and financial condition.

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

A portion of our sales are to governmental agencies. Additionally, many of our current and prospective customers, such as those in the financial services and health care industries, are highly regulated and may be required to comply with more stringent regulations in connection with subscribing to and implementing our services. Selling to these entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully complete a sale. Furthermore, engaging in sales activities to foreign governments introduces additional compliance risks specific to the Foreign Corrupt Practices Act, the UK Bribery Act and other similar statutory requirements prohibiting bribery and corruption in the jurisdictions in which we operate. Government and highly regulated entities often require contract terms that differ from our standard arrangements and impose compliance requirements that are complicated, require preferential pricing or “most favored nation” terms and conditions, or are otherwise time consuming and expensive to satisfy. If we undertake to meet special standards or requirements and do not meet them, we could be subject to increased liability from our customers or regulators. Even if we do meet them, the additional costs associated with providing our services to government and highly regulated customers could harm our margins. Moreover, changes in the underlying regulatory conditions that affect these types of customers could harm our ability to efficiently provide our services to them and to grow or maintain our customer base.

Our use of open source software could harm our ability to sell our services and subject us to possible litigation.

Our products incorporate software licensed to us by third-party authors under open source licenses, and we may continue to incorporate open source software into other services in the future. We attempt to monitor our use of open source software in an effort to avoid subjecting our services to adverse licensing conditions. However, there can be no assurance that our efforts have been or will be successful. There is little or no legal precedent governing the interpretation of the terms of open source licenses, and therefore the potential impact of these terms on our business is uncertain and enforcement of these terms may result in unanticipated obligations regarding our services and technologies. For example, depending on which open source license governs open source software included within our services or technologies, we may be subjected to conditions requiring us to offer our services to users at no cost; make available the source code for modifications and derivative works based upon, incorporating or using the open source software; and license such modifications or derivative works under the terms of the particular open source license. Moreover, if an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal costs defending ourselves against such allegations, be subject to significant damages or be enjoined from the distribution of our services.

If we are unable to maintain effective internal control over financial reporting, the accuracy and timeliness of our financial reporting may be adversely affected.

The Sarbanes-Oxley Act requires us, among other things, to assess and report on the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In addition, our independent registered public accounting firm is required to audit the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act annually. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal material weaknesses. If material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated or could subsequently require restatement, we could receive an adverse opinion regarding our internal control over financial reporting from our independent registered public accounting firm, we could be subject to investigations or sanctions by regulatory authorities and we could incur substantial expenses. New accounting principles, such as the new revenue recognition standards that are effective for us beginning January 1, 2018, require significant changes to our existing processes and controls. We may not be able to effectively implement system and process changes required for the new standards on a timely basis. Any delays or failure to update our systems and processes could also lead to a material weakness.

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

We operate globally and as a result our business and revenues are impacted by global macroeconomic conditions. Global financial developments seemingly unrelated to us or the software industry may harm us. The United States and other key international economies have been impacted by high levels of bad debt globally, geopolitical instability, slowing economic growth in China, falling demand for a variety of goods and services, including oil and other commodities, high levels of persistent unemployment and wage and income stagnation in some geographic markets, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. In addition, the June 23, 2016 referendum by British voters to exit the European Union created significant future economic uncertainties across the European Economic Area, including the United Kingdom. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions, or affect renewal rates, all of which could harm our operating results. In addition, the effects, if any, of global financial conditions on our business can be difficult to distinguish from the effects on our business from product, pricing, and other developments in the markets specific to our products and our relative competitive strength. If we make incorrect judgments about our business for this reason our business and results of operations could be adversely affected.

Natural disasters and other events beyond our control could harm our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a negative effect on us. Our business operations are subject to interruption by natural disasters, flooding, fire, power shortages, pandemics, terrorism, political unrest and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, could decrease demand for our services, and would cause us to incur substantial expense. Our insurance may not be sufficient to cover losses or additional expense that we may sustain in connection with any natural disaster. The majority of our research and development activities, corporate offices, information technology systems, and other critical business operations are located near major seismic faults in California and Washington. Customer data could be lost, significant recovery time could be required to resume operations and our financial condition and operating results could be adversely affected in the event of a major natural disaster or catastrophic event.

Risks Related to Our 0% Convertible Senior Notes Due 2022 (2022 Notes) and Our 0% Convertible Senior Notes Due 2018 (2018 Notes)

We may not have the ability to raise the funds necessary to settle conversions of the convertible senior notes in cash or to repurchase the convertible senior notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the convertible senior notes.

Holders of the 2022 Notes and 2018 Notes have the right to require us to repurchase all or a portion of their 2022 Notes and 2018 Notes upon the occurrence of a fundamental change (as defined in the indenture for each of the 2022 Notes and 2018 Notes, as applicable) at a repurchase price equal to 100% of the principal amount of the 2022 Notes and 2018 Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, if a make-whole fundamental change (as defined in the indenture for each of the 2022 Notes and 2018 Notes, as applicable) occurs prior to the maturity date of the 2022 Notes or 2018 Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its 2022 Notes or 2018 Notes in connection with such make-whole fundamental change. Upon conversion of the 2022 Notes or 2018 Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the 2022 Notes or 2018 Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of the 2022 Notes or 2018 Notes surrendered therefor or pay cash with respect to the 2022 Notes or 2018 Notes being converted.

We and our subsidiaries may incur substantial additional debt in the future, subject to the restrictions contained in our future debt instruments, some of which may be secured debt. We are not restricted under the terms of the indentures governing each of the 2022 Notes and 2018 Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that could have the effect of diminishing our ability to make payments on the 2022 Notes and 2018 Notes when due. Furthermore, the indentures for each of the 2022 Notes and 2018 Notes prohibit us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the 2022 Notes and 2018 Notes and their respective indentures. These and other provisions in each of the indentures could deter or prevent a third party from acquiring us even when the acquisition may be favorable to holders of the 2022 Notes and 2018 Notes.

In addition, our ability to repurchase or to pay cash upon conversion of the 2022 Notes or 2018 Notes may be limited by law, regulatory authority or agreements governing our future indebtedness. Our failure to repurchase 2022 Notes or 2018 Notes at a time when the repurchase is required by each indenture or to pay cash upon conversion of the 2022 Notes or 2018 Notes as required by each indenture would constitute a default. A default under each indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. Moreover, the occurrence of a fundamental change under each indenture could constitute an event of default under any such agreements. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the 2022 Notes or 2018 Notes, or to pay cash upon conversion of the 2022 Notes or 2018 Notes.

The conditional conversion feature of the 2022 Notes and 2018 Notes, if triggered, may adversely affect our financial condition and operating results.

The holders of the 2018 Notes and 2022 Notes may elect to convert their notes during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to $96.04, in the case of the 2018 Notes, or $175.18, in the case of the 2022 Notes (in each case, the Conversion Condition). The Conversion Condition was met for the 2018 Notes during the three months ended June 30, 2017 and September 30, 2017, respectively. Accordingly, the 2018 Notes became convertible at the holders' option during the three months ended September 30, 2017 and will continue to be convertible at the holders' option during the three months ending December 31, 2017. During the three months ended September 30, 2017, we received requests to convert an aggregate of $4,000 principal amount of 2018 Notes, which we have elected to settle in cash. If one or more holders elect to convert their 2018 Notes (or 2022 Notes, if the Conversion Condition is triggered) in future periods, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we may settle all or a portion of our conversion obligation in cash, which could adversely affect our liquidity and result in a material adverse effect on our financial position, results of operations and cash flows. In addition, to the extent we receive conversion requests, we may also record a loss on extinguishment of the 2018 Notes (or 2022 Notes, if the Conversion Condition is triggered) converted by noteholders based on the difference between the fair market value allocated to the liability component on the settlement date and the net carrying amount of the liability component and unamortized debt issuance on the settlement date.

The convertible note hedge and warrant transactions may affect the value of the 2022 Notes and 2018 Notes and our common stock.

In connection with the sale of the 2022 Notes and 2018 Notes, we entered into convertible note hedge (2022 Note Hedge and 2018 Note Hedge, respectively) transactions with certain financial institutions (option counterparties). We also entered into warrant transactions with the option counterparties pursuant to which we sold warrants for the purchase of our common stock (2022 Warrants and 2018 Warrants, respectively). The 2022 Note Hedge and 2018 Note Hedge transactions are expected generally to reduce the potential dilution upon any conversion of the 2022 Notes or 2018 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2022 Notes or 2018 Notes, as the case may be. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of our common stock exceeds the exercise price of the 2022 Warrants or 2018 Warrants, which is $203.40 and $107.46, respectively.

The option counterparties and/or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock in secondary market transactions prior to the maturity of the 2022 Notes or 2018 Notes (and are likely to do so during any observation period related to a conversion of 2022 Notes or 2018 Notes, or following any repurchase of 2022 Notes or 2018 Notes by us on any fundamental change repurchase date (as defined in the indentures for the 2022 Notes and 2018 Notes) or otherwise). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the 2022 Notes or 2018 Notes, which could affect note holders' ability to convert the 2022 Notes or 2018 Notes and, to the extent the activity occurs during any observation period related to a conversion of the 2022 Notes or 2018 Notes, it could affect the amount and value of the consideration that note holders will receive upon conversion of the 2022 Notes or 2018 Notes.

The potential effect, if any, of these transactions and activities on the market price of our common stock or the 2022 Notes or 2018 Notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities could adversely affect the value of our common stock and the value of the 2022 Notes and 2018 Notes (and as a result, the value of the consideration, the amount of cash and/or the number of shares, if any, that note holders would receive upon the conversion of any 2022 Notes or 2018 Notes) and, under certain circumstances, the ability of the note holders to convert the 2022 Notes or 2018 Notes.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the 2022 Notes or 2018 Notes or our common stock. In addition, we do not make any representation that the option counterparties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We are subject to counterparty risk with respect to the 2022 Note Hedge and 2018 Note Hedge transactions.

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them may default under the 2022 Note Hedge or 2018 Note Hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings, with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

Risks Related to Ownership of Our Common Stock

The market price of our common stock has historically been and is likely to continue to be volatile and could subject us to litigation.

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition, the trading prices of the securities of technology companies in general have been highly volatile, and the volatility in market price and trading volume of securities is often unrelated or disproportionate to the financial performance of the companies issuing the securities. Factors affecting the market price of our common stock, some of which are beyond our control, include:

- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of new products, services or technologies, new applications or enhancements to services, strategic alliances, acquisitions, or other significant events by us or by our competitors;
- fluctuations in the valuation of companies perceived by investors to be comparable to us, such as high-growth or cloud companies;
- changes to our management team;
- trading activity by directors, executive officers and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the size of our market float;
- the volume of trading in our common stock, including sales upon exercise of outstanding options or vesting of equity awards or sales and purchases of any common stock issued upon conversion of the 2022 Notes or 2018 Notes or in connection with the 2022 Note Hedge and 2022 Warrant transactions relating to the 2022 Notes, or 2018 Note Hedge and 2018 Warrant transactions relating to the 2018 Notes;
- the economy as a whole, market conditions in our industry, and the industries of our customers; and
- overall performance of the equity markets.

Following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have a material adverse effect on our business, operating results, and financial condition.

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

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our common stock may be prohibited or limited by the terms of any future debt financing arrangement. Any return to stockholders will therefore be limited to the increase, if any, of our stock price.

Provisions in our charter documents, Delaware law, our 2022 Notes and our 2018 Notes might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the market price of our common stock.

Our restated certificate of incorporation and restated bylaws contain provisions that could depress the market price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions among other things:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit the board of directors to establish the number of directors;
- provide that directors may only be removed “for cause” and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our restated bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings (though our restated bylaws have implemented stockholder proxy access).

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and holders of 15% or more of our common stock.

Further, the fundamental change provisions of our 2022 Notes or 2018 Notes may delay or prevent a change in control of our company, because those provisions allow note holders to require us to repurchase such notes upon the occurrence of a fundamental change.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On October 31, 2017, we entered into a letter agreement (the Agreement) with Chirantan "CJ" Desai, our Chief Product Officer. The Agreement confirms the current terms and conditions of Mr. Desai's employment with us and provides for certain additional benefits.

If Mr. Desai's employment with us is terminated without Cause or Mr. Desai resigns his employment for Good Reason other than in connection with a Change in Control (each as defined in the Agreement), then Mr. Desai will be entitled to receive a lump sum payment equal to six months of his then current base salary, a lump sum payment equal to 50% of his Actual Bonus (as defined in the Agreement), and six months continued benefits. If Mr. Desai's employment with us is terminated without Cause or Mr. Desai resigns his employment for Good Reason within the period three months prior to or 12 months following a Change in Control (each as defined in the Agreement), then Mr. Desai will be entitled to receive a lump sum payment equal to six months of his then current base salary, a lump sum payment equal to 50% of his Target Bonus (as defined in the Agreement), six months continued benefits, and acceleration of 100% of the number of then-unvested shares subject to equity grants. Receipt of these severance benefits is conditioned on execution by Mr. Desai of a release of claims in favor of us.

The foregoing description of the Agreement is qualified in its entirety by reference to the full text of the Agreement, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference Form	File No.	Exhibit	Filed Herewith
3.1	Restated Bylaws	8-K	171153208	3.1	
10.1	Confirmatory Employment Letter Agreement, dated October 31, 2017, between the Registrant and Chirantan J. Desai				X
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS	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	XBRL Taxonomy Extension Schema Document.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X

* The certifications on Exhibit 32 hereto are deemed not “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, 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 or the Exchange Act.

SIGNATURES

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

	SERVICENOW, INC.	
Date: November 6, 2017	By:	/s/ John J. Donahoe
		John J. Donahoe
		President and Chief Executive Officer
		(On behalf of the Registrant)
Date: November 6, 2017	By:	/s/ Michael P. Scarpelli
		Michael P. Scarpelli
		Chief Financial Officer
		(As Principal Financial and Accounting Officer)

EXHIBIT 10.1

October 31, 2017

Chirantan J Desai

734 Gailen Avenue
Palo Alto, CA 94303

Dear Chirantan:

This letter agreement (the "***Agreement***") is entered into between you and ServiceNow, Inc. (the "***Company***") and is effective as of the date set forth above (the "***Effective Date***"). The purpose of this Agreement is to confirm the current terms and conditions of your employment with the Company.

1. Position. You will continue to serve as the Company's Chief Product Officer reporting to the Company's Chief Executive Officer (the "***CEO***"). You will have all of the duties, responsibilities and authority commensurate with the position. Your employment with the Company commenced on December 12, 2016 (your "***Start Date***"). Your office will be at the Company's headquarters, currently located in Santa Clara, CA. You will be expected to devote your full working time and attention to the business of the Company.

2. Term. Subject to the terms of this Agreement, this Agreement will remain in effect for a period commencing on the Start Date and continuing until termination of your employment as set forth herein (the "***Employment Term***").

3. Cash Compensation.

    a. Base Salary. Your current annual base salary (the "***Base Salary***") as of the Effective Date will be four hundred fifty thousand dollars ($450,000), less required deductions and withholdings, payable in accordance with the Company's normal payroll practices. Your Base Salary will be subject to adjustment by the Leadership Development and Compensation Committee of the Company's Board of Directors (the "***Compensation Committee***"). Your Base Salary will be pro-rated for any partial years of employment during your Employment Term.

    b. Target Bonus. During the Employment Term, you will be eligible to participate in our executive corporate bonus program. Your current annual bonus target is sixty seven (67%) of your Base Salary, which equals three hundred thousand dollars ($300,000) for the applicable fiscal year (your "***Target Bonus***"). Whether you receive the Target Bonus, and the amount of any actual bonus amount awarded (your "***Actual Bonus***"), will be determined by the Compensation Committee in its sole discretion based in all cases upon the achievement of both Company and individual performance objectives as established by the Compensation Committee. To earn any Actual Bonus, you must be employed by the Company on the last day of the period to which such bonus relates and at the time bonuses are paid, except as otherwise provided herein. Your bonus participation will be subject to all the terms, conditions and restrictions of the applicable Company bonus plan, as amended from time to time. The Actual Bonus shall be subject to required deductions and withholdings.

4. Benefits, Vacation & Expenses.

    a. You will be entitled to participate in all employee retirement, welfare, insurance, benefit and vacation programs of the Company as are in effect from time to time and in which other senior executives of the Company are eligible to participate, on the same terms as such other senior executives, pursuant to the governing plan documents.

    b. The Company will, in accordance with applicable Company policies and guidelines, reimburse you for all reasonable and necessary expenses incurred by you in connection with your performance of services on behalf of the Company.

5. Equity Awards.

    a. Prior Equity Awards. The Company has previously granted you equity awards under the Company's 2012 Equity Incentive Plan (the "***Equity Plan***"). Such awards will continue to be subject to their existing terms and any additional terms set forth in this Agreement.

b. Future Equity. You may be eligible for future equity grants as determined by and pursuant to the terms established by the Compensation Committee. The amount and performance metrics for subsequent performance-based restricted stock units will be determined by the Compensation Committee.

6. Definitions. As used in this Agreement, the following terms have the following meanings.

a. Cause. For purposes of this Agreement, "***Cause***" for the Company to terminate your employment hereunder shall mean the occurrence of any of the following events, as determined by the Company in its sole and absolute discretion:

i. your conviction of, or plea of nolo contendere to, any felony or any crime involving fraud, dishonesty or moral turpitude;

ii. your commission of or participation in a fraud or act of dishonesty against the Company that results in (or would reasonably be expected to result in) material harm to the business of the Company;

iii. your intentional, material violation of any contract or agreement between you and the Company or any statutory duty you owe to the Company or the improper disclosure of confidential information (as defined in the Company's standard confidentiality agreement);

iv. your conduct that constitutes gross insubordination, incompetence or habitual neglect of duties and that results in (or would reasonably be expected to result in) material harm to the business of the Company;

v. your material failure to perform the duties of your position as Chief Product Officer;

vi. your material failure to follow the Company's material policies; or

vii. your failure to cooperate with the Company in any investigation or formal proceeding;

provided, however, that the action or conduct described in clauses (iii), (iv), (v), (vi) and (vii) above will constitute "Cause" only if such action or conduct continues after the Company has provided you with written notice thereof and thirty (30) days to cure the same if such action or conduct is curable.

b. Change in Control. For purposes of this Agreement, "***Change in Control***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events (excluding in any case transactions in which the Company or its successors issues securities to investors primarily for capital raising purposes):

i. the acquisition by a third party of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction;

ii. a merger, consolidation or similar transaction following which the stockholders of the Company immediately prior thereto do not own at least fifty percent (50%) of the combined outstanding voting power of the surviving entity (or that entity's parent) in such merger, consolidation or similar transaction;

iii. the dissolution or liquidation of the Company; or

iv. the sale, lease, exclusive license or other disposition of all or substantially all of the assets of the Company.

Notwithstanding any of the foregoing, any transaction or transactions effected solely for purposes of changing the Company's domicile will not constitute a Change in Control pursuant to the foregoing definition.

c. COBRA. For purposes of this Agreement, "***COBRA***" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

d. Code. For purposes of this Agreement, "***Code***" means the Internal Revenue Code of 1986, as amended.

e. Disability. For purposes of this Agreement, "***Disability***" shall have that meaning set forth in Section 22(e)(3) of the Code.

f. Good Reason. For purposes of this Agreement, "***Good Reason***" for you to terminate your employment hereunder shall mean the occurrence of any of the following events without your consent:

i. any material diminution in your authority, duties or responsibilities as in effect immediately prior to such reduction or a material diminution in the authority, duties or responsibilities of the person or persons to whom you are required to report;

ii. a material reduction by the Company in your annual Base Salary or Target Bonus, as initially set forth herein or as increased thereafter; *provided, however,* that Good Reason shall not be deemed to have occurred in the event of a reduction in your annual Base Salary or Target Bonus that is pursuant to a salary or bonus reduction program affecting substantially all of the employees of the Company or substantially all similarly situated executive employees and that does not adversely affect you to a greater extent than other similarly situated employees;

iii. a relocation of your business office to a location that would increase your one-way commute distance by more than thirty-five (35) miles from the current location at which you performed your duties immediately prior to the relocation, except for required travel by you on the Company's business to an extent substantially consistent with your business travel obligations prior to the relocation; or

iv. failure of a successor entity to assume this Agreement;

provided, however, that, any such termination by you shall only be deemed for Good Reason pursuant to this definition if: (1) you give the Company written notice of your intent to resign for Good Reason within ninety (90) days following the first occurrence of the condition(s) that you believe constitute(s) Good Reason, which notice shall describe such condition(s); (2) the Company fails to remedy such condition(s) within thirty (30) days following receipt of the written notice (the "***Cure Period***"); and (3) you voluntarily resign your employment within one hundred twenty (120) days following the end of the Cure Period.

7. Effect of Termination of Employment.

a. Termination by the Company for Cause, Death or Disability or Resignation without Good Reason. In the event your employment is terminated by the Company for Cause, your employment terminates due to your death or Disability (which termination may be implemented by written notice by the Company if you have a Disability), or you resign your employment other than for Good Reason, you will be paid only: (i) any earned but unpaid Base Salary; (ii) except in the case of termination for Cause or resignation without Good Reason, the amount of any Actual Bonus earned and payable from a prior bonus period which remains unpaid by the Company as of the date of the termination of employment determined in good faith in accordance with customary practice, to be paid at the same time as bonuses are paid for that period to other eligible executives; (iii) other unpaid and then-vested amounts, including any amount payable to you under the specific terms of any agreements, plans or awards, including insurance and health and benefit plans in which you participate, unless otherwise specifically provided in this Agreement; and (iv) reimbursement for all reasonable and necessary expenses incurred by you in connection with your performance of services on behalf of the Company in accordance with applicable Company policies and guidelines, in each case as of the effective date of such termination of employment (the "***Accrued Compensation***").

b. Termination without Cause or Resignation for Good Reason, Absent a Change in Control. During the time period from the Effective Date through the third (3^{rd}) anniversary of the Effective Date, if the Company terminates your employment without Cause or you resign your employment for Good Reason, in either case not in connection with a Change in Control (which is dealt with in Section 7(c) below), provided that (except with respect to the Accrued Compensation) you deliver to the Company a signed general release of claims in favor of the Company on the Company's standard form of release (the "***Release***") and satisfy all conditions to make the Release effective within sixty (60) days following your termination of employment, then, you shall be entitled to:

i. the Accrued Compensation; and

ii. a lump sum payment equal to six (6) months of your then-current Base Salary, less required deductions and withholdings;

iii. a lump sum payment equal to fifty percent (50%) of your Actual Bonus for the then-current fiscal year based on: (x) actual achievement of Company performance objectives and (y) deemed 100% achievement of personal performance objectives, if any, less any quarterly payment previously paid, if any, subject to required deductions and withholdings and paid when annual bonuses are otherwise paid to active employees, but no later than March 15^{th} of the year following the year in which the termination of employment occurs; and

iv. a payment of the COBRA premiums (or reimbursement to you of such premiums) for continued health coverage for you and your dependents for a period of six (6) months.

Notwithstanding the foregoing, nothing in this Section 7 shall reduce your obligations under Section 3(b) of this Agreement.

c. Termination without Cause or Resignation for Good Reason, in Connection with a Change in Control. During the time period from the Effective Date through the third (3^{rd}) anniversary of the Effective Date, in the event a Change in Control occurs and if the Company terminates your employment without Cause or if you resign your employment for Good Reason, in either case within the period beginning three (3) months before, and ending twelve (12) months following, such Change in Control; and provided that (except with respect to the Accrued Compensation) you deliver to the Company the signed Release and satisfy all conditions to make the Release effective within sixty (60) days following your termination of employment, then, (in lieu of any benefits pursuant to Section 7(b)), you shall be entitled to:

i. the Accrued Compensation;

ii. a lump sum payment equal to six (6) months of your then-current Base Salary, less required deductions and withholdings;

iii. a lump sum payment equal to fifty percent (50%) of your Target Bonus for the then-current fiscal year less any quarterly payment previously paid, if any, subject to required deductions and withholdings;

iv. a payment of the COBRA premiums (or reimbursement to you of such premiums) for continued health coverage for you and your dependents for a period of six (6) months; and

v. immediate acceleration of one hundred percent (100%) of the number of then-unvested shares subject to equity grants, unless otherwise provided (and to the extent specified) by the terms of such grants.

Notwithstanding the foregoing, nothing in this Section 7 shall reduce your obligations under Section 3(b) of this Agreement.

d. Miscellaneous. For the avoidance of doubt, the benefits payable pursuant to Sections 7(b) through (c) are mutually exclusive and not cumulative. All lump sum payments provided in this Section 7 shall be made no later than the 60^{th} day following your termination of employment (unless explicitly provided otherwise above). In addition, Sections 7(b) and 7(c) and the benefits conferred therein shall expire and terminate on the third (3^{rd}) anniversary of the Effective Date. Notwithstanding anything to the contrary in this Agreement, (i) any reference herein to a termination of your employment is intended to constitute a “separation from service” within the meaning of Section 409A of the Code, and Section 1.409A-1(h) of the regulations promulgated thereunder, and shall be so construed, and (ii) no payment will be made or become due to you during any period that you continue in a role with the Company that does not constitute a separation from service, and will be paid once you experience a “separation from service” from the Company within the meaning of Section 409A of the Code. In addition, notwithstanding anything to the contrary in this Agreement, upon a termination of your employment, you agree to resign prior to the time you deliver the Release from all positions you may hold with the Company and any of its subsidiaries or affiliated entities at such time, and no payment will be made or become due to you until you resign from all such positions, unless requested otherwise by the Board.

8. Parachute Payments. In the event that the severance and other benefits provided for in this Agreement or otherwise payable to you (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Section, would be subject to the excise tax imposed by Section 4999 of the Code, then, at your discretion, your severance and other benefits under this Agreement shall be payable either (i) in full, or (ii) as to such lesser amount which would result in no portion of such severance and other benefits being subject to the excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by you on an after-tax basis, of the greatest amount of severance benefits under this Agreement, notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Any reduction shall be made in the following manner: first a pro-rata reduction of (i) cash payments subject to Section 409A of the Code as deferred compensation and (ii) cash payments not subject to Section 409A of the Code, and second a pro rata cancellation of (i) equity-based compensation subject to Section 409A of the Code as deferred compensation and (ii) equity-based compensation not subject to Section 409A of the Code, with equity all being reduced in reverse order of vesting and equity not subject to treatment under Treasury regulation 1.280G- Q & A 24(c) being reduced before equity that is so subject. Unless the Company and you otherwise agree in writing, any determination required under this Section shall be made in writing by the Company's independent public accountants (the "***Accountants***"), whose determination shall be conclusive and binding upon you and the Company for all purposes. For purposes of making the calculations required by this Section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and you shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Accountants shall deliver to the Company and you sufficient documentation for you to rely on it for purpose of filing your tax returns. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section.

9. Section 409A. To the extent (i) any payments to which you become entitled under this Agreement, or any agreement or plan referenced herein, in connection with your termination of employment with the Company constitute deferred compensation subject to Section 409A of the Code and (ii) you are deemed at the time of such termination of employment to be a "specified" employee under Section 409A of the Code, then such payment or payments shall not be made or commence until the earlier of (i) the expiration of the six (6)-month period measured from the date of your "separation from service" (as such term is at the time defined in regulations under Section 409A of the Code) with the Company; or (ii) the date of your death following such separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you, including (without limitation) the additional twenty percent (20%) tax for which you would otherwise be liable under Section 409A(a)(1)(B) of the Code in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to you or your beneficiary in one lump sum (without interest).

Except as otherwise expressly provided herein, to the extent any expense reimbursement or the provision of any in-kind benefit under this Agreement (or otherwise referenced herein) is determined to be subject to (and not exempt from) Section 409A of the Code, the amount of any such expenses eligible for reimbursement, or the provision of any in-kind benefit, in one calendar year shall not affect the expenses eligible for reimbursement or in kind benefits to be provided in any other calendar year, in no event shall any expenses be reimbursed after the last day of the calendar year following the calendar year in which you incurred such expenses, and in no event shall any right to reimbursement or the provision of any in-kind benefit be subject to liquidation or exchange for another benefit.

To the extent that any provision of this Agreement is ambiguous as to its exemption or compliance with Section 409A, the provision will be read in such a manner so that all payments hereunder are exempt from Section 409A to the maximum permissible extent, and for any payments where such construction is not tenable, that those payments comply with Section 409A to the maximum permissible extent. To the extent any payment under this Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this Agreement (or referenced in this Agreement), and each installment thereof, are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the regulations under Section 409A.

10. At Will Employment. Employment with the Company is for no specific period of time. Your employment with the Company continues to be "at will," meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. Any contrary representations that may have been made to you are superseded by this Agreement. This is the full and complete agreement between you and the Company on this term. Although your compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company (other than you).

11. Confidential Information and Other Company Policies. You will continue to be bound by and comply fully with your existing At Will Employment, Confidential Information and Invention Assignment Agreement (the "***CIIA***") and Arbitration Agreement (the "***Arbitration Agreement***") as well as the insider trading policy, code of conduct, and any other policies and programs adopted by the Company regulating the behavior of its employees, as such policies and programs may be amended from time to time to the extent the same are not inconsistent with this Agreement, unless you consent to the same at the time of such amendment.

12. Company Records and Confidential Information.

    a. Records. All records, files, documents and the like, or abstracts, summaries or copies thereof, relating to the business of the Company or the business of any subsidiary or affiliated companies, which the Company or you prepare or use or come into contact with, will remain the sole property of the Company or the affiliated or subsidiary company, as the case may be, and will be promptly returned upon termination of employment.

    b. Confidentiality. You acknowledge that you have acquired and will acquire knowledge regarding confidential, proprietary and/or trade secret information in the course of performing your responsibilities for the Company, and you further acknowledge that such knowledge and information is the sole and exclusive property of the Company. You recognize that disclosure of such knowledge and information, or use of such knowledge and information, to or by a competitor could cause serious and irreparable harm to the Company.

13. Indemnification. You and the Company will enter into the form of indemnification agreement provided to other similarly situated officers of the Company.

14. Compensation Recoupment. All amounts payable to you hereunder shall be subject to recoupment pursuant to the Company's current compensation recoupment policy, and any additional compensation recoupment policy or amendments to the current policy adopted by the Board from time to time hereafter, as allowed by applicable law.

15. Miscellaneous.

a. Absence of Conflicts; Competition with Prior Employer. You represent that your performance of your duties under this Agreement will not breach any other agreement as to which you are a party. You agree that you have disclosed to the Company all of your existing employment and/or business relationships, including, but not limited to, any consulting or advising relationships, outside directorships, investments in privately held companies, and any other relationships that may create a conflict of interest. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information and we will assist you in any way possible to preserve and protect the confidentiality of proprietary information belonging to third parties. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires.

b. Successors. This Agreement is binding on and may be enforced by the Company and its successors and permitted assigns and is binding on and may be enforced by you and your heirs and legal representatives. Any successor to the Company or substantially all of its business (whether by purchase, merger, consolidation or otherwise) will in advance assume in writing and be bound by all of the Company's obligations under this Agreement and shall be the only permitted assignee.

c. Notices. Notices under this Agreement must be in writing and will be deemed to have been given when personally delivered or two days after mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. Mailed notices to you will be addressed to you at the home address which you have most recently communicated to the Company in writing. Notices to the Company will be addressed to the CEO at the Company's corporate headquarters.

d. Waiver. No provision of this Agreement will be modified or waived except in writing signed by you and an officer of the Company duly authorized by its Board or the Compensation Committee. No waiver by either party of any breach of this Agreement by the other party will be considered a waiver of any other breach of this Agreement.

e. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

f. Withholding. All sums payable to you hereunder shall be reduced by all federal, state, local and other withholding and similar taxes and payments required by applicable law.

g. Entire Agreement. This Agreement, together with the CIIA and Arbitration Agreement, supersede and replace any prior agreements, representations or understandings (whether written, oral, implied or otherwise) between you and the Company, including, without limitation, your offer letter with the Company dated December 6, 2016, and constitute the entire agreement between you and the Company concerning the subject matter herein. This Agreement may be amended, or any of its provisions waived, only by a written document executed by both parties in the case of an amendment, or by the party against whom the waiver is asserted.

h. Governing Law. This Agreement will be governed by the laws of the State of California without reference to conflict of laws provisions.

i. Survival. The provisions of this Agreement shall survive the termination of your employment for any reason to the extent necessary to enable the parties to enforce their respective rights under this Agreement.

[SIGNATURE PAGE TO AGREEMENT FOLLOWS]

Please indicate your acceptance of this Agreement by signing the bottom portion of this Agreement.

Best regards,

/s/ John J. Donahoe
John J. Donahoe
President & Chief Executive Officer
ServiceNow, Inc.

I, the undersigned, hereby accept and agree to the terms and conditions of my employment with the Company as set forth in this Agreement.

Accepted and agreed to as of the Effective Date.

By: /s/ Chirantan J Desai
Chirantan J Desai

[SIGNATURE PAGE TO AGREEMENT]

EXHIBIT 31.1

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

I, John J. Donahoe, 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: November 6, 2017

/s/ John J. Donahoe

John J. Donahoe
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Michael P. Scarpelli, 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: November 6, 2017

/s/ Michael P. Scarpelli

Michael P. Scarpelli
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

I, John J. Donahoe, President and 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:

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 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 for the periods presented therein.

Date: November 6, 2017

/s/ John J. Donahoe

John J. Donahoe
President and Chief Executive Officer
(Principal Executive Officer)

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

EXHIBIT 32.2

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

I, Michael P. Scarpelli, 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:

- the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2017 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 for the periods presented therein.

Date: November 6, 2017

/s/ Michael P. Scarpelli

Michael P. Scarpelli
Chief Financial Officer
(Principal Financial and Accounting 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.