ServiceNow, Inc.
Form 10-Q
November 07, 2018

false--12-31Q320182018-09-300001373715falseLarge Accelerated FilerfalseNOW1000.940.940.940000.013540.007420.49P2YP4Y 0001373715 2018-01-01 2018-09-30 0001373715 2018-09-30 0001373715 2017-12-31 0001373715 us-gaap:LicenseAndServiceMember us-gaap:CostOfSalesMember 2017-07-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember us-gaap:CostOfSalesMember 2018-07-01 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2018-01-01 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2017-07-01 2017-09-30 0001373715 us-gaap:ResearchAndDevelopmentExpenseMember 2017-01-01 2017-09-30 0001373715 us-gaap:ResearchAndDevelopmentExpenseMember 2018-01-01 2018-09-30 0001373715 us-gaap:ResearchAndDevelopmentExpenseMember 2018-07-01 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2018-07-01 2018-09-30 0001373715 us-gaap:TechnologyServiceMember us-gaap:CostOfSalesMember 2018-01-01 2018-09-30 0001373715 us-gaap:LicenseAndServiceMember us-gaap:CostOfSalesMember 2018-01-01 2018-09-30 0001373715 us-gaap:LicenseAndServiceMember us-gaap:CostOfSalesMember 2017-01-01 2017-09-30 0001373715 now:SalesAndMarketingMember 2018-01-01 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2017-01-01 2017-09-30 0001373715 now:SalesAndMarketingMember 2017-01-01 2017-09-30 0001373715 now:SalesAndMarketingMember 2017-07-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember us-gaap:CostOfSalesMember 2017-07-01 2017-09-30 0001373715 us-gaap:ResearchAndDevelopmentExpenseMember 2017-07-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember us-gaap:CostOfSalesMember 2017-01-01 2017-09-30 0001373715 now:SalesAndMarketingMember 2018-07-01 2018-09-30 0001373715 us-gaap:LicenseAndServiceMember us-gaap:CostOfSalesMember 2018-07-01 2018-09-30 0001373715 2018-07-01 2018-09-30 0001373715 2017-07-01 2017-09-30 0001373715 2017-01-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember 2018-01-01 2018-09-30 0001373715 us-gaap:TechnologyServiceMember 2017-07-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember 2017-01-01 2017-09-30 0001373715 us-gaap:LicenseAndServiceMember 2017-01-01 2017-09-30 0001373715 us-gaap:LicenseAndServiceMember 2018-01-01 2018-09-30 0001373715 us-gaap:LicenseAndServiceMember 2017-07-01 2017-09-30 0001373715 us-gaap:LicenseAndServiceMember 2018-07-01 2018-09-30 0001373715 us-gaap:TechnologyServiceMember 2018-07-01 2018-09-30 0001373715 2017-09-30 0001373715 2016-12-31 0001373715 srt:ScenarioPreviouslyReportedMember 2017-01-01 2017-09-30 0001373715 srt:ScenarioPreviouslyReportedMember 2017-07-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember srt:ScenarioPreviouslyReportedMember 2017-07-01 2017-09-30 0001373715 us-gaap:LicenseAndServiceMember srt:ScenarioPreviouslyReportedMember 2017-07-01 2017-09-30 0001373715 us-gaap:LicenseAndServiceMember srt:ScenarioPreviouslyReportedMember 2017-01-01 2017-09-30 0001373715 us-gaap:TechnologyServiceMember srt:ScenarioPreviouslyReportedMember 2017-01-01 2017-09-30 0001373715 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-09-30 0001373715 srt:MaximumMember 2018-01-01 2018-09-30 0001373715 srt:RestatementAdjustmentMember us-gaap:AccountingStandardsUpdate201409Member 2018-07-01 2018-09-30 0001373715 srt:MinimumMember 2018-01-01 2018-09-30 0001373715 us-gaap:AccountingStandardsUpdate201601Member us-gaap:RetainedEarningsMember 2018-01-01 0001373715 us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-09-30 0001373715 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-01-01 0001373715 us-gaap:AccountingStandardsUpdate201409Member 2018-01-01 2018-03-31 0001373715 srt:ScenarioPreviouslyReportedMember 2017-12-31 0001373715 us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:CommercialPaperMember 2018-09-30 0001373715 us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:CommercialPaperMember 2017-12-31 0001373715 us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:EquitySecuritiesMember 2018-01-01 2018-09-30 0001373715 us-gaap:FairValueInputsLevel3Member 2018-09-30 0001373715

us-gaap:EquitySecuritiesMember 2017-12-31 0001373715 us-gaap:FairValueInputsLevel3Member 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:EquitySecuritiesMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CommercialPaperMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:MoneyMarketFundsMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:EquitySecuritiesMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:CommercialPaperMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:MoneyMarketFundsMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:FairValueInputsLevel1Member 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:MoneyMarketFundsMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CommercialPaperMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CommercialPaperMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CommercialPaperMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 us-gaap:FairValueInputsLevel2Member 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:EquitySecuritiesMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CertificatesOfDepositMember 2017-12-31 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CommercialPaperMember 2017-12-31 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:CommercialPaperMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CommercialPaperMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CommercialPaperMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715

us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:MoneyMarketFundsMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CommercialPaperMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CommercialPaperMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CommercialPaperMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:FairValueInputsLevel1Member 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:MoneyMarketFundsMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:MoneyMarketFundsMember 2018-09-30 0001373715 us-gaap:FairValueInputsLevel2Member 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:CashEquivalentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:CertificatesOfDepositMember 2018-09-30 0001373715 now:LongtermInvestmentsMember us-gaap:FairValueInputsLevel1Member us-gaap:USTreasuryAndGovernmentMember 2018-09-30 0001373715 us-gaap:ShortTermInvestmentsMember us-gaap:FairValueInputsLevel2Member us-gaap:CorporateDebtSecuritiesMember 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2018-09-30 0001373715 us-gaap:GeneralAndAdministrativeExpenseMember 2017-09-30 0001373715 now:All2017BusinessCombinationsMember 2017-09-30 0001373715 now:All2017BusinessCombinationsMember 2017-01-01 2017-09-30 0001373715 now:All2018BusinessCombinationsMember us-gaap:DevelopedTechnologyRightsMember 2018-09-30 0001373715 now:All2017BusinessCombinationsMember us-gaap:DevelopedTechnologyRightsMember 2017-01-01 2017-09-30 0001373715 now:All2018BusinessCombinationsMember us-gaap:DevelopedTechnologyRightsMember 2018-01-01 2018-09-30 0001373715 now:All2018BusinessCombinationsMember 2018-01-01 2018-09-30 0001373715 now:All2017BusinessCombinationsMember us-gaap:DevelopedTechnologyRightsMember 2017-09-30 0001373715 now:All2018BusinessCombinationsMember 2018-09-30 0001373715 us-gaap:PatentsMember 2018-01-01 2018-09-30 0001373715 us-gaap:PatentsMember 2017-01-01 2017-09-30 0001373715 us-gaap:DevelopedTechnologyRightsMember 2018-09-30 0001373715 us-gaap:PatentsMember 2018-09-30 0001373715 us-gaap:PatentsMember 2017-12-31 0001373715 us-gaap:OtherIntangibleAssetsMember 2017-12-31 0001373715 us-gaap:DevelopedTechnologyRightsMember 2017-12-31 0001373715 us-gaap:OtherIntangibleAssetsMember 2018-09-30 0001373715 us-gaap:ConstructionInProgressMember 2018-09-30 0001373715 us-gaap:ComputerEquipmentMember 2018-09-30 0001373715 us-gaap:BuildingMember 2018-09-30 0001373715 us-gaap:ConstructionInProgressMember 2017-12-31 0001373715 us-gaap:FurnitureAndFixturesMember 2017-12-31 0001373715 us-gaap:LeaseholdImprovementsMember 2018-09-30 0001373715 us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2017-12-31 0001373715 us-gaap:ComputerEquipmentMember 2017-12-31 0001373715 us-gaap:FurnitureAndFixturesMember 2018-09-30

0001373715 us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2018-09-30 0001373715
us-gaap:BuildingMember 2017-12-31 0001373715 us-gaap:LeaseholdImprovementsMember 2017-12-31 0001373715
us-gaap:ForeignExchangeContractMember us-gaap:NondesignatedMember 2018-09-30 0001373715
us-gaap:ForeignExchangeContractMember us-gaap:NondesignatedMember 2018-01-01 2018-09-30 0001373715
now:AccruedExpensesAndOtherCurrentLiabilitiesMember us-gaap:ForeignExchangeContractMember
us-gaap:FairValueInputsLevel2Member us-gaap:NondesignatedMember 2018-09-30 0001373715
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:ForeignExchangeContractMember
us-gaap:FairValueInputsLevel2Member us-gaap:NondesignatedMember 2018-09-30 0001373715 2018-10-01
2018-09-30 0001373715 2020-10-01 2018-09-30 0001373715 2019-10-01 2018-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember 2013-11-01 2013-11-30 0001373715
now:A2022ConvertibleSeniorNotesMember 2017-06-30 0001373715 now:A2018ConvertibleSeniorNotesMember
2013-11-30 0001373715 now:A2022ConvertibleSeniorNotesMember 2017-04-01 2017-06-30 0001373715
now:A2022WarrantsMember 2018-01-01 2018-09-30 0001373715 now:A2018WarrantsMember 2018-01-01
2018-09-30 0001373715 now:A2022WarrantsMember 2018-09-30 0001373715 now:A2018WarrantsMember
2018-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember 2018-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember 2018-09-30 0001373715 now:A2018NoteHedgeMember 2018-01-01
2018-09-30 0001373715 now:StockPriceTriggerMeasurementMember 2018-01-01 2018-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember 2018-01-01 2018-09-30 0001373715
now:NotesPriceTriggerMeasurementMember 2018-01-01 2018-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember us-gaap:SubsequentEventMember 2018-11-01 2018-11-01 0001373715
now:A2022ConvertibleSeniorNotesMember 2018-01-01 2018-09-30 0001373715 now:A2018NoteHedgeMember
2018-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember 2017-12-31 0001373715
now:A2018ConvertibleSeniorNotesMember 2017-12-31 0001373715 now:A2018ConvertibleSeniorNotesMember
2017-07-01 2017-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember 2018-07-01 2018-09-30
0001373715 now:A2022ConvertibleSeniorNotesMember 2017-07-01 2017-09-30 0001373715
now:A2022ConvertibleSeniorNotesMember 2017-01-01 2017-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember 2018-07-01 2018-09-30 0001373715
now:A2018ConvertibleSeniorNotesMember 2017-01-01 2017-09-30 0001373715 now:A2022NoteHedgeMember
2018-01-01 2018-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember
us-gaap:FairValueInputsLevel2Member 2017-12-31 0001373715 now:A2018ConvertibleSeniorNotesMember
us-gaap:FairValueInputsLevel2Member 2017-12-31 0001373715 now:A2018ConvertibleSeniorNotesMember
us-gaap:FairValueInputsLevel2Member 2018-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember
us-gaap:FairValueInputsLevel2Member 2018-09-30 0001373715 now:A2022ConvertibleSeniorNotesMember
2017-05-01 2017-06-30 0001373715 us-gaap:AccountingStandardsUpdate201601Member
us-gaap:RetainedEarningsMember 2018-09-30 0001373715 us-gaap:PerformanceSharesMember 2018-01-01
2018-09-30 0001373715 now:TwoThousandTwelveEmployeeStockPurchasePlanMember 2018-09-30 0001373715
now:TwoThousandTwelveEquityIncentivePlanMember 2018-09-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-09-30 0001373715 us-gaap:EmployeeStockOptionMember
2018-09-30 0001373715 us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-03-31 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-03-31 0001373715 us-gaap:RestrictedStockUnitsRSUMember
2017-12-31 0001373715 us-gaap:RestrictedStockUnitsRSUMember 2018-06-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-04-01 2018-06-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-07-01 2018-09-30 0001373715
now:TwoThousandTwelveEmployeeStockPurchasePlanMember 2018-01-01 2018-01-01 0001373715
now:TwoThousandTwelveEmployeeStockPurchasePlanMember 2018-01-01 2018-09-30 0001373715
srt:MaximumMember us-gaap:PerformanceSharesMember 2018-01-01 2018-09-30 0001373715
us-gaap:PerformanceSharesMember us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-01-01
2018-09-30 0001373715 us-gaap:PerformanceSharesMember 2017-01-01 2017-09-30 0001373715
us-gaap:EmployeeStockOptionMember 2018-01-01 2018-09-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-09-30 0001373715
now:TwoThousandTwelveEquityIncentivePlanMember 2018-01-01 2018-09-30 0001373715 srt:MinimumMember

us-gaap:PerformanceSharesMember 2018-01-01 2018-09-30 0001373715
now:TwoThousandTwelveEquityIncentivePlanMember 2018-01-01 2018-01-01 0001373715 2018-01-01 2018-03-31
0001373715 2018-04-01 2018-06-30 0001373715 2018-06-30 0001373715 2018-03-31 0001373715
us-gaap:PerformanceSharesMember us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2018-01-01
2018-09-30 0001373715 us-gaap:RestrictedStockUnitsRSUMember
now:TwoThousandTwelveEquityIncentivePlanMember 2018-01-01 2018-09-30 0001373715
us-gaap:WarrantMember now:A2018WarrantsMember 2018-07-01 2018-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2018ConvertibleSeniorNotesMember 2018-07-01 2018-09-30
0001373715 us-gaap:EmployeeStockOptionMember 2018-07-01 2018-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2022ConvertibleSeniorNotesMember 2018-07-01 2018-09-30
0001373715 now:EmployeeStockPurchasePlanMember 2018-07-01 2018-09-30 0001373715
us-gaap:WarrantMember now:A2022WarrantsMember 2017-07-01 2017-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2018ConvertibleSeniorNotesMember 2018-01-01 2018-09-30
0001373715 us-gaap:ConvertibleNotesPayableMember now:A2018ConvertibleSeniorNotesMember 2017-07-01
2017-09-30 0001373715 us-gaap:EmployeeStockOptionMember 2017-01-01 2017-09-30 0001373715
us-gaap:WarrantMember now:A2018WarrantsMember 2018-07-01 2018-09-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 2017-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2022ConvertibleSeniorNotesMember 2018-01-01 2018-09-30
0001373715 us-gaap:EmployeeStockOptionMember 2017-07-01 2017-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2022ConvertibleSeniorNotesMember 2018-07-01 2018-09-30
0001373715 us-gaap:WarrantMember now:A2018WarrantsMember 2017-01-01 2017-09-30 0001373715
us-gaap:WarrantMember now:A2022WarrantsMember 2017-01-01 2017-09-30 0001373715 us-gaap:WarrantMember
now:A2018WarrantsMember 2017-07-01 2017-09-30 0001373715 us-gaap:EmployeeStockOptionMember
2018-07-01 2018-09-30 0001373715 us-gaap:ConvertibleNotesPayableMember
now:A2018ConvertibleSeniorNotesMember 2018-07-01 2018-09-30 0001373715
now:EmployeeStockPurchasePlanMember 2018-07-01 2018-09-30 0001373715
us-gaap:EmployeeStockOptionMember 2018-01-01 2018-09-30 0001373715
now:EmployeeStockPurchasePlanMember 2017-01-01 2017-09-30 0001373715 us-gaap:WarrantMember
now:A2022WarrantsMember 2018-07-01 2018-09-30 0001373715 us-gaap:WarrantMember
now:A2018WarrantsMember 2018-01-01 2018-09-30 0001373715 us-gaap:RestrictedStockUnitsRSUMember
2017-07-01 2017-09-30 0001373715 us-gaap:ConvertibleNotesPayableMember
now:A2022ConvertibleSeniorNotesMember 2017-07-01 2017-09-30 0001373715 us-gaap:WarrantMember
now:A2022WarrantsMember 2018-01-01 2018-09-30 0001373715 us-gaap:ConvertibleNotesPayableMember
now:A2022ConvertibleSeniorNotesMember 2017-01-01 2017-09-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-07-01 2018-09-30 0001373715
us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-09-30 0001373715
now:EmployeeStockPurchasePlanMember 2018-01-01 2018-09-30 0001373715
us-gaap:ConvertibleNotesPayableMember now:A2018ConvertibleSeniorNotesMember 2017-01-01 2017-09-30
0001373715 now:EmployeeStockPurchasePlanMember 2017-07-01 2017-09-30 0001373715
srt:NorthAmericaMember 2018-07-01 2018-09-30 0001373715 now:AsiaPacificAndOtherMember 2017-07-01
2017-09-30 0001373715 now:AsiaPacificAndOtherMember 2018-01-01 2018-09-30 0001373715
us-gaap:EMEAMember 2018-07-01 2018-09-30 0001373715 srt:NorthAmericaMember 2017-01-01 2017-09-30
0001373715 srt:NorthAmericaMember 2018-01-01 2018-09-30 0001373715 srt:NorthAmericaMember 2017-07-01
2017-09-30 0001373715 us-gaap:EMEAMember 2018-01-01 2018-09-30 0001373715
now:AsiaPacificAndOtherMember 2017-01-01 2017-09-30 0001373715 now:AsiaPacificAndOtherMember
2018-07-01 2018-09-30 0001373715 us-gaap:EMEAMember 2017-07-01 2017-09-30 0001373715
us-gaap:EMEAMember 2017-01-01 2017-09-30 0001373715 us-gaap:EMEAMember 2017-12-31 0001373715
now:AsiaPacificAndOtherMember 2018-09-30 0001373715 srt:NorthAmericaMember 2017-12-31 0001373715
srt:NorthAmericaMember 2018-09-30 0001373715 us-gaap:EMEAMember 2018-09-30 0001373715
now:AsiaPacificAndOtherMember 2017-12-31 0001373715
now:LicenseandServiceServiceManagementProductsMember 2018-07-01 2018-09-30 0001373715

now:LicenseandServiceITOMProductsMember 2018-07-01 2018-09-30 0001373715
now:LicenseandServiceServiceManagementProductsMember 2017-01-01 2017-09-30 0001373715
now:LicenseandServiceServiceManagementProductsMember 2017-07-01 2017-09-30 0001373715
now:LicenseandServiceServiceManagementProductsMember 2018-01-01 2018-09-30 0001373715
now:LicenseandServiceITOMProductsMember 2017-01-01 2017-09-30 0001373715
now:LicenseandServiceITOMProductsMember 2018-01-01 2018-09-30 0001373715
now:LicenseandServiceITOMProductsMember 2017-07-01 2017-09-30 0001373715
us-gaap:SubsequentEventMember 2018-10-01 2018-10-31 0001373715 now:A2018ConvertibleSeniorNotesMember
us-gaap:ScenarioForecastMember 2019-02-01 xbrli:shares iso4217:USD now:company iso4217:USD xbrli:shares
xbrli:pure now:day now:security now:trading_day now:incentive_plan

Table of Contents

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, 2018
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes 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 ¨	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, 2018, there were approximately 179.3 million shares of the Registrant's Common Stock outstanding.

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017	1
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017	2
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	52
Item 4.	Controls and Procedures	53
	PART II	
Item 1.	Legal Proceedings	54
Item 1A.	Risk Factors	54
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	69
Item 3.	Defaults Upon Senior Securities	69
Item 4.	Mine Safety Disclosures	69
Item 5.	Other Information	69
Item 6.	Exhibits	70
	Signatures	

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2018	December 31, 2017 *As Adjusted
Assets		
Current assets:		
Cash and cash equivalents	$703,629	$726,495
Short-term investments	922,411	1,052,803
Accounts receivable, net	424,698	437,051
Current portion of deferred commissions	126,185	109,643
Prepaid expenses and other current assets	115,262	95,959
Total current assets	2,292,185	2,421,951
Deferred commissions, less current portion	247,681	224,252
Long-term investments	457,561	391,442
Property and equipment, net	297,371	245,124
Intangible assets, net	84,006	86,916
Goodwill	143,133	128,728
Other assets	59,505	51,832
Total assets	$3,581,442	$3,550,245
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$43,223	$32,109
Accrued expenses and other current liabilities	251,545	253,257
Current portion of deferred revenue	1,363,217	1,210,695
Current portion of convertible senior notes, net	160,972	543,418
Total current liabilities	1,818,957	2,039,479
Deferred revenue, less current portion	41,244	36,120
Convertible senior notes, net	653,638	630,018
Other long-term liabilities	47,419	65,884
Total liabilities	2,561,258	2,771,501
Stockholders' equity:		
Common stock	179	174
Additional paid-in capital	2,007,218	1,731,367
Accumulated other comprehensive income (loss)	(1,418)	5,767
Accumulated deficit	(985,795)	(958,564)
Total stockholders' equity	1,020,184	778,744
Total liabilities and stockholders' equity	$3,581,442	$3,550,245

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

See accompanying notes to condensed consolidated financial statements

1

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenues:				
Subscription	$626,567	$449,506	$1,755,174	$1,239,762
Professional services and other	46,530	42,866	138,201	129,639
Total revenues	673,097	492,372	1,893,375	1,369,401
Cost of revenues(1):				
Subscription	106,821	81,878	303,918	228,046
Professional services and other	51,037	45,608	150,578	137,652
Total cost of revenues	157,858	127,486	454,496	365,698
Gross profit	515,239	364,886	1,438,879	1,003,703
Operating expenses(1):				
Sales and marketing	289,323	217,866	883,893	643,998
Research and development	135,655	98,465	380,839	272,959
General and administrative	80,693	52,465	216,851	150,242
Total operating expenses	505,671	368,796	1,481,583	1,067,199
Income (loss) from operations	9,568	(3,910)	(42,704)	(63,496)
Interest expense	(11,233)	(16,566)	(43,795)	(36,581)
Interest income and other income (expense), net	8,895	579	45,520	(177)
Income (loss) before income taxes	7,230	(19,897)	(40,979)	(100,254)
Provision for (benefit from) income taxes	(1,175)	2,285	(7,260)	(754)
Net income (loss)	$8,405	$(22,182)	$(33,719)	$(99,500)
Net income (loss) per share - basic	$0.05	$(0.13)	$(0.19)	$(0.58)
Net income (loss) per share - diluted	$0.04	$(0.13)	$(0.19)	$(0.58)
Weighted-average shares used to compute net income (loss) per share - basic	178,719,694	171,883,190	177,198,179	170,359,717
Weighted-average shares used to compute net income (loss) per share - diluted	192,190,899	171,883,190	177,198,179	170,359,717
Other comprehensive income (loss):				
Foreign currency translation adjustments	$1,655	$5,237	$212	$22,383
Unrealized gain (loss) on investments, net of tax	922	(2,864)	(163)	5,243
Other comprehensive income, net of tax	2,577	2,373	49	27,626
Comprehensive income (loss)	$10,982	$(19,809)	$(33,670)	$(71,874)

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Cost of revenues:				
Subscription	$12,775	$8,980	$36,604	$25,860
Professional services and other	8,407	7,056	24,310	21,548
Sales and marketing	60,132	43,962	169,283	124,650
Research and development	35,527	23,092	97,905	67,624

General and administrative	27,567	17,352	73,207	48,695

2

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

See accompanying notes to condensed consolidated financial statements

Table of Contents

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

	Nine Months Ended September 30,	
	2018	2017 *As Adjusted
Cash flows from operating activities:		
Net loss	$(33,719)	$(99,500)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	106,492	81,808
Amortization of deferred commissions	107,367	68,154
Amortization of debt discount and issuance costs	43,795	36,581
Stock-based compensation	401,309	288,377
Deferred income tax	(32,297)	(6,055)
Gain on marketable equity securities	(19,257)	—
Repayments of convertible senior notes attributable to debt discount	(101,633)	—
Other	4,502	(1,554)
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	7,454	45,879
Deferred commissions	(152,521)	(114,514)
Prepaid expenses and other assets	1,519	(17,393)
Accounts payable	5,058	(11,088)
Deferred revenue	174,058	188,291
Accrued expenses and other liabilities	9,350	(829)
Net cash provided by operating activities	521,477	458,157
Cash flows from investing activities:		
Purchases of property and equipment	(136,349)	(115,856)
Business combinations, net of cash and restricted cash acquired	(24,940)	(26,537)
Purchases of other intangibles	(13,600)	(6,170)
Purchases of investments	(818,159)	(641,666)
Purchase of strategic investments	(8,839)	(4,000)
Sales of investments	39,975	77,968
Maturities of investments	861,629	350,597
Net cash used in investing activities[1]	(100,283)	(365,664)
Cash flows from financing activities:		
Net proceeds from borrowings on convertible senior notes	—	772,127
Repayments of convertible senior notes attributable to principal	(311,520)	—
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	100,437	76,748
Taxes paid related to net share settlement of equity awards	(221,268)	(131,130)
Payments on financing obligations	(756)	(2,681)
Net cash (used in) provided by financing activities	(433,107)	586,118
Foreign currency effect on cash, cash equivalents and restricted cash[1]	(9,593)	25,765
Net (decrease) increase in cash, cash equivalents and restricted cash[1]	(21,506)	704,376
Cash, cash equivalents and restricted cash at beginning of period[1]	727,829	401,932

Cash, cash equivalents and restricted cash at end of period[(1)]	$706,323	$1,106,308
Cash, cash equivalents and restricted cash at end of period:		
Cash and cash equivalents	$703,629	$1,104,871
Current portion of restricted cash included in prepaid expenses and other current assets	2,694	1,437
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$706,323	$1,106,308
Non-cash investing and financing activities:		
Benefit from 2018 Note Hedges	$548,001	$—
Property and equipment included in accounts payable and accrued expenses	25,018	9,321

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

(1) During the three months ended December 31, 2017, we adopted Accounting Standards Update 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” 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. Accordingly, we have recast our prior period condensed consolidated statement of cash flows to conform to the current presentation. The impact of the adoption for the nine months ended September 30, 2017 is not material.

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. We help our customers improve service quality 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, customers deploy our software internally or contract with a third party to host the software to support their unique regulatory or security requirements.

(2) Summary of Significant Accounting Policies

Basis of Presentation

Effective January 1, 2018, we adopted the Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" as discussed further below in this Note 2. All amounts and disclosures set forth in this Form 10-Q have been updated to comply with the new standard, including previously reported amounts, which are labeled "as adjusted" in these condensed consolidated financial statements and related notes. Certain prior period amounts reported in our condensed consolidated financial statements and notes thereto have been reclassified to conform to the current period presentation.

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements due to the permitted exclusion of certain disclosures for interim reporting. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary under GAAP for fair statement of results for the interim periods presented have been included. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2017 is derived from audited financial statements as adjusted to reflect the impact of the full retrospective adoption of Topic 606; 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, 2017, which was filed with the SEC on February 28, 2018.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 stand-alone selling price (SSP) for each distinct performance obligation included in customer contracts with multiple performance obligations, the period of benefit for deferred commissions, 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, and legal contingencies. Actual results could differ from those estimates.

Table of Contents

New Accounting Pronouncements Adopted in 2018

Fair Value Measurement

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement," which modifies the disclosure requirements on fair value measurements. This new standard is effective for our interim and annual periods beginning January 1, 2020, and earlier adoption is permitted. We early adopted this new standard upon its issuance, and because it only relates to qualitative financial disclosures, it did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

Stock-based Compensation

In June 2018, the FASB issued ASU 2018-07, "Compensation—Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting," which is intended to reduce cost and complexity and to improve financial reporting for nonemployee share-based payments. Currently, the accounting requirements for nonemployee and employee share-based payment transactions are significantly different. This standard expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services, aligning the accounting for share-based payments to nonemployees and employees. This standard is effective for our fiscal year beginning January 1, 2019 and early adoption is permitted. We early adopted this new standard effective January 1, 2018, and the adoption of this standard did not have a material impact on our condensed consolidated financial statements. As this standard was adopted on a prospective basis as of January 1, 2018, the adoption of this standard did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

Income Taxes

In February 2018, the FASB issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides entities the option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the 2017 Tax Cuts and Jobs Act (the Tax Act) to retained earnings. This standard is effective for our fiscal year beginning January 1, 2019 and early adoption is permitted. We early adopted this new standard effective January 1, 2018, with an immaterial amount of cumulative effect adjustment recorded to our accumulated deficit as of January 1, 2018. As this standard was adopted on a modified prospective basis as of January 1, 2018, the adoption of this standard did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allows us to record provisional amounts for the 2017 Tax Cuts and Jobs Act (the Tax Act) during a measurement period not to extend beyond one year of the enactment date, with further clarifications made recently with the issuance of ASU 2018-05. Through September 30, 2018, we did not have any significant adjustments to our provisional amounts. In light of the enactment of the Tax Act, we are assessing whether to change our indefinite reinvestment assertion, in which we consider earnings from our foreign operations to be indefinitely reinvested outside of the United States. Under guidance issued by the SEC, we are required to complete our assessment by the end of the measurement period described above. We will continue our analysis of these provisional amounts, which remain subject to change during the measurement period. We anticipate further guidance on accounting interpretations from the FASB and application of the law from the Department of Treasury. We expect to reach a final determination within the measurement period described above.

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 in the accounting for the income tax consequences of intra-entity transfers

of assets other than inventory to reduce the complexity in accounting standards. We adopted this new standard as of January 1, 2018 with an immaterial amount of cumulative effect adjustment recorded to our accumulated deficit as of January 1, 2018. As this standard was adopted on a modified prospective basis as of January 1, 2018, the adoption of this standard did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

Table of Contents

Financial Instruments

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, with further clarifications made more recently. This new standard requires equity securities to be measured at fair value with changes in fair value recognized through the statement of operations, which may result in greater variability in our net income (loss). We adopted these new standards as of January 1, 2018 with a cumulative-effect adjustment, net of tax of $7.2 million recorded to our accumulated deficit as of January 1, 2018. This adjustment relates to the unrealized gain on our marketable equity securities as of December 31, 2017, which was previously included in accumulated other comprehensive income (loss) on our condensed consolidated balance sheet. As part of the adoption, we elected to apply the measurement alternative for our non-marketable equity investments that do not have readily determinable fair values, measuring them 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. The adoption of these standards did not result in an adjustment for our non-marketable equity investments as our measurement alternative election requires adjustments to be recorded only on a prospective basis. As these standards were adopted on a modified prospective basis as of January 1, 2018, the adoption of these standards did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

Revenue from Contracts with Customers

In May 2014, the FASB issued Topic 606, which supersedes the prior revenue recognition standard (Topic 605). Under Topic 606, 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 be entitled to 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. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer.

The Topic 606 standard 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 standard recognized at the date of initial application (modified retrospective method). We adopted the requirements of Topic 606 as of January 1, 2018, utilizing a full retrospective method. The most significant impact of the standard relates to the timing of revenue recognition related to self-hosted offerings, in which customers deploy, or we grant customers the option to deploy without significant penalty, our software internally or contract with a third party to host the software, the accounting for incremental selling costs to obtain a contract, and the classification of proceeds for Knowledge and other user forums as a reduction in sales and marketing expenses instead of as professional services and other revenues. The adoption of Topic 606 resulted in changes to our accounting policies for revenue recognition, unbilled receivables, deferred commissions, deferred revenue and customer deposits as detailed below.

Under Topic 606, for self-hosted offerings, the requirement to have vendor specific objective evidence (VSOE) for undelivered elements was eliminated. As a result, for all periods presented, we have recognized as subscription revenues a portion of the sales price upon delivery of the software, compared to the prior practice under Topic 605 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 subscription revenues have not been billed, the revenues are primarily recorded as "unbilled receivables." In addition, refundable amounts associated with customer contracts are recorded as "customer deposits."

In addition, under Topic 606, for all periods presented, we have deferred all incremental selling costs (primarily commissions) to obtain customer contracts, including indirect costs that are not tied to a specific contract, for both

self-hosted offerings and cloud-based subscription offerings. On initial contracts and contracts for increased purchases with existing customers (expansion contracts), these costs are primarily amortized over a period of benefit that we have determined to be five years. On renewal contracts, these costs are amortized over the renewal term. Additionally, for self-hosted offerings, consistent with the recognition of subscription revenue for self-hosted offerings as described above, a portion of the commission cost is expensed upfront when the self-hosted offering is made available. Our prior practice under Topic 605 was to defer only direct and incremental commission costs to obtain a contract and amortize those costs over the contract term, which is generally 12 to 36 months, for both self-hosted offerings and cloud-based subscription offerings.

As part of our adoption of Topic 606, during the three and nine months ended September 30, 2018, we recorded a decrease in sales and marketing expenses and a corresponding increase in our deferred commissions asset of $7.4 million and $5.4 million, respectively. These adjustments reflect the correction of previously undercapitalized incremental fringe benefit costs associated with sales commissions that were paid since 2012. We concluded that these adjustments were not material to the current period or any previously reported periods presented, as adjusted for the full retrospective adoption of Topic 606.

Table of Contents

The direct effect on income taxes resulting from the full retrospective adoption of the above-mentioned changes to revenues and commission expenses resulted in a cumulative income tax expense of $23.3 million recorded in the prior periods through December 31, 2017. The indirect tax benefit of Topic 606 on income taxes associated with intercompany adjustments of $23.1 million, or $0.13 per basic and diluted share for the nine months ended September 30, 2018, was recorded in the first quarter of adoption during the three months ended March 31, 2018.

The table below provides specified line items from our condensed consolidated balance sheet (i) as previously reported and (ii) as adjusted to reflect the impact of the full retrospective adoption of Topic 606 (in thousands):

	Year Ended December 31, 2017	
	As Previously Reported	As Adjusted
Assets		
Accounts receivable, net	$434,895	$437,051
Current portion of deferred commissions	118,690	109,643
Prepaid expenses and other current assets	77,681	95,959
Deferred commissions, less current portion	85,530	224,252
Other assets	49,600	51,832
Liabilities		
Accrued expenses and other current liabilities	244,605	253,257
Current portion of deferred revenue	1,280,499	1,210,695
Deferred revenue, less current portion	39,884	36,120
Other long-term liabilities	43,239	65,884
Stockholder’s equity		
Accumulated other comprehensive (loss) income	(889)	5,767
Accumulated deficit	(1,146,520)	(958,564)

Table of Contents

The table below provides specified line items from our condensed consolidated statement of comprehensive loss (i) as previously reported and (ii) as adjusted to reflect the impact of the full retrospective adoption of Topic 606 (in thousands, except per share data):

	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	As Previously Reported	As Adjusted	As Previously Reported	As Adjusted
Revenues:				
Subscription	$455,421	$449,506	$1,242,563	$1,239,762
Professional services and other	42,749	42,866	144,093	129,639
Total revenues	498,170	492,372	1,386,656	1,369,401
Cost of revenues:				
Professional services and other	45,402	45,608	137,366	137,652
Total cost of revenues	127,280	127,486	365,412	365,698
Gross profit	370,890	364,886	1,021,244	1,003,703
Operating expenses:				
Sales and marketing	227,015	217,866	686,325	643,998
Total operating expenses	377,945	368,796	1,109,526	1,067,199
Loss from operations	(7,055)	(3,910)	(88,282)	(63,496)
Interest income and other income (expense), net	853	579	739	(177)
Loss before income taxes	(22,768)	(19,897)	(124,124)	(100,254)
Provision for (benefit from) income taxes	1,420	2,285	(2,801)	(754)
Net loss	$(24,188)	$(22,182)	$(121,323)	$(99,500)
Net loss per share - basic and diluted	$(0.14)	$(0.13)	$(0.71)	$(0.58)
Weighted-average shares used to compute net loss per share - basic and diluted	171,883,190	171,883,190	170,359,717	170,359,717

The table below provides specified line items from our condensed consolidated statement of cash flows (i) as previously reported and (ii) as adjusted to reflect the impact of the full retrospective adoption of Topic 606 (in thousands):

	Nine months ended September 30, 2017	
	As Previously Reported	As Adjusted
Cash flows from operating activities:		
Net loss	$(121,323)	$(99,500)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of deferred commissions	80,251	68,154
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	42,341	45,879
Deferred commissions	(102,348)	(114,514)
Prepaid expenses and other assets	(26,866)	(17,393)
Accounts payable	(11,088)	(11,088)
Deferred revenue	193,594	188,291
Accrued expenses and other liabilities	4,247	(829)
Net cash provided by operating activities	458,039	458,157
Foreign currency effect on cash, cash equivalents and restricted cash	25,883	25,765

9

Table of Contents

Updated Significant Accounting Policies

Revenue Recognition

We report our revenues in two categories: (i) subscriptions and (ii) professional services and other.

Revenues are recognized when control of these services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those services.

We determine revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy a performance obligation

Subscription revenues

Subscription revenues are primarily comprised of subscription fees that give customers access to the ordered subscription service, related support and updates, if any, to the subscribed service during the subscription term. We recognize subscription revenues ratably over the contract term beginning on the commencement date of each contract, which is the date we make our services available to our customers. Our contracts with customers typically include a fixed amount of consideration and are generally non-cancelable and without any refund-type provisions. We typically invoice our customers annually in advance for our subscription services upon execution of the initial contract or subsequent renewal, and our invoices are typically due within 30 days from the invoice date.

Subscription revenues also include revenues from self-hosted offerings in which customers deploy, or we grant customers the option to deploy without significant penalty, our subscription service internally or contract with a third party to host the software. For these contracts, we account for the software element and the related support and updates separately as they are distinct performance obligations. Refer to the discussion below related to contracts with multiple performance obligations for further details. The transaction price is allocated to separate performance obligations on a relative SSP basis. Transaction price allocated to the software element is recognized upon delivery, which is when transfer of control of the software to the customer is complete. The transaction price allocated to the related support and updates are recognized ratably over the contract term.

Professional services and other revenues

Our professional services arrangements are primarily on a time-and-materials basis, and revenues on these arrangements are recognized as the services are delivered. We typically invoice our customers monthly in arrears for these professional services based on actual hours and expenses incurred, and our invoices are typically due within 30 days from the invoice date. Professional services revenues associated with fixed fee arrangements are recognized on a proportional performance basis. In instances where certain milestones are required to be met before revenues are recognized, we defer professional services revenues and the associated costs until milestone criteria have been met. Other revenues consist of fees from customer training delivered on-site or through publicly available classes.

Contracts with multiple performance obligations

We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. For these contracts, the transaction price is allocated to the separate performance obligations on a relative SSP basis. We determine SSP by considering the historical selling price of these performance obligations in similar transactions as well as other factors, including, but not limited to, competitive pricing of similar products, other software vendor pricing, industry publications and current pricing practices.

Unbilled Receivables

Unbilled receivables, which is a contract asset, represent subscription revenues that are recognized upon delivery of the software prior to being invoiced. Unbilled receivables are primarily presented under prepaid expenses and other current assets on our condensed consolidated balance sheets.

Table of Contents

Deferred Commissions

Deferred commissions are the incremental selling costs that are associated with acquiring customer contracts and consist primarily of sales commissions paid to our sales force and referral fees paid to independent third-parties. Capitalized sales commissions also include the associated payroll taxes and fringe benefit costs associated with payments to our sales employees to the extent they are incremental. On initial and expansion contracts, commissions and referral fees are primarily deferred and amortized over a period of benefit that we have determined to be five years. On renewal contracts, commissions are deferred and amortized over the average renewal term. Additionally, for self-hosted offerings, consistent with the recognition of subscription revenue for self-hosted offerings, a portion of the commission cost is expensed upfront when the self-hosted offering is made available. We determine the period of benefit by taking into consideration our customer contracts, our technology life cycle and other factors. We include amortization of deferred commissions in sales and marketing expense in our condensed consolidated statements of comprehensive income (loss). There was no impairment loss in relation to the incremental selling costs capitalized for all periods presented.

Deferred revenue

Deferred revenue, which is a contract liability, consists primarily of payments received in advance of revenue recognition from our contracts with customers and is recognized as the revenue recognition criteria are met. Once our services are available to customers, we record amounts due in accounts receivable and in deferred revenue. To the extent we bill customers in advance of the billing period commencement date, the accounts receivable and corresponding deferred revenue amounts are netted to zero on our condensed consolidated balance sheets, unless such amounts have been paid as of the balance sheet date.

Customer deposits

Customer deposits primarily relate to payments received from customers which could be refundable pursuant to the terms of the contract and are presented under “accrued expenses and other current liabilities” on our condensed consolidated balance sheets.

Strategic investments

Our strategic investments consist of debt and non-marketable equity investments in privately-held companies in which we do not have a controlling interest or significant influence. 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 (loss). We have elected to apply the measurement alternative for equity investments that do not have readily determinable fair values, measuring them 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. An impairment loss is recorded when event or circumstance indicates a decline in value has occurred. We include these strategic investments in “Other assets” on the consolidated balance sheets.

New Accounting Pronouncements Pending Adoption

Cloud computing arrangements implementation costs

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,’which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop

or obtain internal-use software. The new standard requires capitalized costs to be amortized on a straight-line basis generally over the term of the arrangement, and the financial statement presentation for these capitalized costs would be the same as that of the fees related to the hosting arrangements. This new standard is effective for our interim and annual periods beginning January 1, 2020 and earlier adoption is permitted. This standard could be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are evaluating the timing and impact of our pending adoption of this standard on our consolidated financial statements.

Table of Contents

SEC disclosure update

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that have become redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. The final rule is effective November 5, 2018. As permitted by the SEC, we will present this analysis beginning with our Quarterly Report on Form 10-Q for the three months ending March 31, 2019.

Income taxes

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (GILTI) provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of subsidiary foreign corporations. We are currently evaluating the impact of the Tax Act and this guidance on our condensed consolidated financial statements and have not yet elected an accounting policy to either recognize deferred taxes for basis differences expected to reverse as GILTI or to record GILTI as period costs if and when incurred.

Credit losses

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 condensed consolidated financial statements.

Leases

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 subsequently issued by the FASB, is effective for our interim and annual periods beginning January 1, 2019, and early adoption is permitted. We are in the process of implementing changes to our existing systems and processes in conjunction with a review of existing vendor agreements and do not plan to early adopt this new standard. We currently anticipate that the adoption of this standard will have a material impact on our condensed consolidated balance sheets given that we had operating lease commitments in excess of $800 million as of September 30, 2018, on an undiscounted basis. The present value of these lease commitments will be recognized as right-of-use assets and lease liabilities at the later to occur of (i) the adoption date of January 1, 2019 or (ii) the time we take possession of the leased asset. However, we do not anticipate that the adoption of this standard will have a material impact on our condensed consolidated statements of comprehensive income (loss) since the expense recognition under this new standard will be similar to current practice. We do not expect the adoption of this standard to have a material impact on our condensed consolidated statements of cash flows.

Table of Contents

(3) Investments

Marketable Debt Securities

The following is a summary 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 (in thousands):

	September 30, 2018			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
Commercial paper	$196,207	$ —	$—	$196,207
Corporate notes and bonds	1,012,972	49	(3,072)	1,009,949
Certificates of deposit	59,387	1	—	59,388
U.S. government and agency securities	114,950	—	(522)	114,428
Total available-for-sale securities	$1,383,516	$ 50	$(3,594)	$1,379,972

	December 31, 2017			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
Commercial paper	$258,348	$ 1	$(5)	$258,344
Corporate notes and bonds	1,006,302	26	(3,084)	1,003,244
Certificates of deposit	33,084	—	—	33,084
U.S. government and agency securities	129,494	—	(638)	128,856
Total available-for-sale securities	$1,427,228	$ 27	$(3,727)	$1,423,528

As of September 30, 2018, the contractual maturities of our available-for-sale investment securities, excluding securities classified within cash and cash equivalents on the condensed consolidated balance sheets, did not exceed 36 months. The fair values of these securities, by remaining contractual maturity, are as follows (in thousands):

	September 30, 2018
Due within 1 year	$922,411
Due in 1 year through 5 years	457,561
Total	$1,379,972

Table of Contents

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 as cash and cash equivalents on the condensed consolidated balance sheets (in thousands):

	September 30, 2018					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial paper	$14,992	$—	$—	$—	$14,992	$—
Corporate notes and bonds	703,906	(1,817)	218,247	(1,255)	922,153	(3,072)
Certificates of deposit	1,000	—	—	—	1,000	—
U.S. government and agency securities	42,101	(143)	72,327	(379)	114,428	(522)
Total	$761,999	$(1,960)	$290,574	$(1,634)	$1,052,573	$(3,594)

	December 31, 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
Commercial paper	$14,809	$(5)	$—	$—	$14,809	$(5)
Corporate notes and bonds	819,113	(2,703)	141,874	(381)	960,987	(3,084)
U.S. government and agency securities	106,301	(593)	22,555	(45)	128,856	(638)
Total	$940,223	$(3,301)	$164,429	$(426)	$1,104,652	$(3,727)

As of September 30, 2018, we had a total of 384 available-for-sale securities, excluding those securities classified within cash and cash equivalents on the consolidated balance sheet in an unrealized loss position. 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.

Table of Contents

Marketable Equity Securities

As of December 31, 2017, we had marketable equity securities of $20.7 million. In May 2018, we sold these securities for total proceeds of $40.0 million. We recognized net gains of $19.3 million for the nine months ended September 30, 2018, resulting from our adoption of ASU 2016-01 as we began to record changes in stock price fluctuations of our marketable equity securities through statement of operations rather than in accumulated other comprehensive income (loss) on our condensed consolidated balance sheet. During the nine months ended September 30, 2017, prior to the adoption of ASU 2016-01, we recognized $7.9 million of unrealized gains on our marketable equity securities offset by $2.9 million of tax effect through accumulated other comprehensive income (loss) on our condensed consolidated balance sheet. Refer to Note 2 for further details on ASU 2016-01. Upon our sale of these securities, the previously unrealized gain became realized. As of September 30, 2018, we had no marketable equity securities on our condensed consolidated balance sheet.

Strategic Investments

As of September 30, 2018 and December 31, 2017, the total amount of equity investments in privately-held companies included in other assets on our condensed consolidated balance sheets was $13.3 million and $4.8 million, respectively. We have not recorded any adjustments resulting from observable price changes or impairment charges for any of our equity investments in privately-held companies.

The fair value of our debt investments in privately-held companies included within our strategic investments was $1.3 million and $1.0 million as of September 30, 2018 and December 31, 2017, 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. There were no significant changes in unrealized gains and losses recognized in other comprehensive income (loss) for these investments.

(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, 2018 (in thousands):

	Level 1	**Level 2**	**Total**
Cash equivalents:			
Money market funds	$226,945	$—	$226,945
Commercial paper	—	104,025	104,025
Certificates of deposit	—	4,435	4,435
Short-term investments:			
Commercial paper	—	196,207	196,207
Corporate notes and bonds	—	566,748	566,748
Certificates of deposit	—	47,992	47,992
U.S. government and agency securities	—	111,464	111,464
Long-term investments:			
Corporate notes and bonds	—	443,201	443,201
Certificates of deposit	—	11,396	11,396
U.S. government and agency securities	—	2,964	2,964
Total	$226,945	$1,488,432	$1,715,377

15

Table of Contents

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis at December 31, 2017 (in thousands):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	$282,507	$—	$282,507
Commercial paper	—	100,456	100,456
Corporate notes and bonds	—	50,437	50,437
Short-term investments:			
Commercial paper	—	258,344	258,344
Corporate notes and bonds	—	688,316	688,316
Certificates of deposit	—	17,950	17,950
U.S. government and agency securities	—	67,476	67,476
Marketable equity securities	20,717	—	20,717
Long-term investments:			
Corporate notes and bonds	—	314,928	314,928
Certificates of deposit	—	15,134	15,134
U.S. government and agency securities	—	61,380	61,380
Total	$303,224	$1,574,421	$1,877,645

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, Note 8 for the fair value measurement of our derivative contracts and Note 11 for the fair value measurement of our convertible senior notes.

(5) Business Combinations

During the nine months ended September 30, 2018, we completed acquisitions of two privately-held companies, Parlo, Inc. and VendorHawk, Inc., for an aggregate of approximately $25.1 million in cash. In allocating the aggregate purchase price based on the estimated fair values, we recorded a total of $18.1 million of goodwill, $9.0 million of developed technology intangible assets (to be amortized over estimated useful lives of five years) and $2.2 million of deferred tax liabilities. Goodwill arising from these business combinations is not deductible for income tax purposes.

During the nine months ended September 30, 2017, we completed acquisitions of three privately-held companies, Qlue, Inc., DxContinuum, Inc. and Digital Telepathy, Inc. (Telepathy), for an aggregate of approximately $26.6 million in cash. In allocating the aggregate purchase price based on the estimated fair values, we recorded $9.9 million of developed technology intangible assets (to be amortized over estimated useful lives of five years), $3.6 million of deferred tax liabilities and a total of $20.3 million of goodwill, of which $4.1 million is deductible for income tax purposes.

The excess of purchase consideration over the fair value of net tangible and identifiable assets acquired was recorded as goodwill. We believe the goodwill balance associated with these business combinations represents the synergies expected from expanded market opportunities when integrating the acquired developed technologies with our offerings.

The results of operations of these business combinations have been included in our condensed consolidated financial statements from their respective dates of purchase. These business combinations did not have a material impact on our condensed consolidated financial statements, and therefore historical and pro forma disclosures have not been presented. Aggregate acquisition-related costs of $1.0 million and $1.5 million for the nine months ended September 30, 2018 and 2017, respectively, are included in general and administrative expenses in our condensed consolidated statements of comprehensive income (loss).

Table of Contents

(6) Goodwill and Intangible Assets

Goodwill balances are presented below (in thousands):

	Carrying Amount
Balance as of December 31, 2017	$128,728
Goodwill acquired	18,063
Foreign currency translation adjustments	(3,658)
Balance as of September 30, 2018	$143,133

Intangible assets consist of the following (in thousands):

	September 30, 2018	December 31, 2017
Developed technology	$110,294	$102,349
Patents	37,880	31,030
Other	650	1,575
Total intangible assets	148,824	134,954
Less: accumulated amortization	(64,818)	(48,038)
Net carrying amount	$84,006	$86,916

Apart from the business combinations described in Note 5, we acquired $6.9 million and $6.2 million of intangible assets in patents during the nine months ended September 30, 2018 and 2017, respectively. The weighted-average useful life for the patents acquired during the nine months ended September 30, 2018 and 2017 was approximately eight years and ten years, respectively.

Amortization expense for intangible assets for the three months ended September 30, 2018 and 2017 was approximately $6.4 million and $4.8 million, respectively, and for the nine months ended September 30, 2018 and 2017 was approximately $18.2 million and $14.3 million, respectively.

The following table presents the estimated future amortization expense related to intangible assets held at September 30, 2018 (in thousands):

Years Ending December 31,	
2018	$6,313
2019	25,189
2020	14,454
2021	14,454
2022	9,403
Thereafter	14,193
Total future amortization expense	$84,006

17

Table of Contents

(7) Property and Equipment

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

	September 30, 2018	December 31, 2017
Computer equipment	$428,261	$326,378
Computer software	56,078	46,413
Leasehold and other improvements	72,034	56,232
Furniture and fixtures	41,278	38,789
Building	6,771	7,084
Construction in progress	6,879	5,341
	611,301	480,237
Less: accumulated depreciation	(313,930)	(235,113)
Total property and equipment, net	$297,371	$245,124

Construction in progress consists primarily of building, leasehold and other improvements and in-process software development costs. Depreciation and amortization expense for the three months ended September 30, 2018 and 2017 was $31.5 million and $24.3 million, respectively, and for the nine months ended September 30, 2018 and 2017 was approximately $88.3 million and $66.9 million, respectively.

(8) Derivative Contracts

We conduct business on a global basis in multiple foreign currencies, subjecting us to foreign currency risk. In order to manage certain exposures to currency fluctuations, we initiated a limited hedging program beginning in the three months ended March 31, 2018 by entering into foreign currency derivative contracts with maturities of 12 months or less to hedge a portion of our net outstanding monetary assets and liabilities.

These derivative contracts consist of forward contracts entered into with various counterparties and are not designated as hedging instruments under applicable accounting guidance. As such, all changes in the fair value of these derivative contracts are recorded in Interest income and other income (expense), net on the condensed consolidated statements of comprehensive income (loss). These derivative contracts are intended to offset the foreign currency gains or losses associated with the underlying monetary assets and liabilities. Changes in the related derivative assets and liabilities balances are classified as operating activities in the condensed consolidated statement of cash flows.

These derivative contracts expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the arrangement. We mitigate this credit risk by transacting with major financial institutions with high credit ratings and entering into master netting arrangements, which permit net settlement of transactions with the same counterparty. While the contract or notional amount is often used to express the volume of foreign currency derivative contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties’ obligations under the agreements exceed the obligations of the Company to the counterparties. We are not required to pledge, and are not entitled to receive, cash collateral related to these derivative instruments. We do not enter into derivative contracts for trading or speculative purposes.

As of September 30, 2018, we had derivative contracts with total notional values of $794.1 million, which are not designated as hedge instruments. Our foreign currency contracts are classified within Level 2 because the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, such as currency spot and forward rates. The fair values of these outstanding derivative contracts as of September 30, 2018

were as follows (in thousands):

	Condensed Consolidated Balance Sheet Location	**September 30, 2018**
Derivative Assets:		
Foreign currency derivative contracts	Prepaid expenses and other current assets	$16,524
Derivative Liabilities		
Foreign currency derivative contracts	Accrued expenses and other current liabilities	$734

18

Table of Contents

(9) Deferred Revenue and Performance Obligations

Revenues recognized during the nine months ended September 30, 2018 from amounts included in deferred revenue as of December 31, 2017 are $1.0 billion. Revenues recognized during the nine months ended September 30, 2018 from performance obligations satisfied or partially satisfied in previous periods were not material.

Transaction Price Allocated to the Remaining Performance Obligations

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenues in future periods. We applied the practical expedient in accordance with Topic 606 to exclude amounts related to professional services contracts that are on a time-and-material basis, which typically have a remaining duration of one year or less. In addition, we elected to apply the practical expedient to not disclose the transaction price allocated to remaining performance obligations for all periods presented before January 1, 2018, the date of our initial adoption of Topic 606.

As of September 30, 2018, the total remaining non-cancelable performance obligations under our contracts with customers was approximately $4.2 billion, and we expect to recognize revenues on approximately 51% of these remaining performance obligations over the following 12 months, with the balance to be recognized thereafter.

(10) Accrued Expenses and Other Current Liabilities

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

	September 30, 2018	December 31, 2017 *As Adjusted
Taxes payable	$29,439	$25,617
Bonuses and commissions	68,729	84,972
Accrued compensation	55,832	45,428
Other employee related liabilities	39,831	44,284
Other	57,714	52,956
Total accrued expenses and other current liabilities	$251,545	$253,257

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

(11) Convertible Senior Notes

In May and June 2017, we issued an aggregate of $782.5 million of 0% convertible senior notes (the 2022 Notes), which are due June 1, 2022 unless earlier converted or repurchased in accordance with their terms. In November 2013, we issued $575.0 million of 0% convertible senior notes (the 2018 Notes, and together with the 2022 Notes, the Notes), which are 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 upon settlement. 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

Table of Contents

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 (in each case, the Conversion Condition); or

- during the five-business day period after any five-consecutive trading day period, or the measurement period, in which the trading price per $1,000 principal amount of the 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, and such conversions will settle upon the applicable maturity date. Upon settlement, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, pursuant to our election.

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, 2018	**December 31, 2017**
Liability component:		
Principal:		
2022 Notes	$782,500	$782,500
2018 Notes	161,841	574,994
Less: debt issuance cost and debt discount, net of amortization		

2022 Notes	(128,862)	(152,482)
2018 Notes	(869)	(31,576)
Net carrying amount	$814,610	$1,173,436

	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

Table of Contents

The Conversion Condition for the 2022 Notes was met for the quarters ended June 30, 2018 and September 30, 2018. Therefore, our 2022 Notes became convertible at the holders' option beginning on July 1, 2018 and continue to be convertible at the holders' option through December 31, 2018. Through the filing date, we have not received any conversion requests for our 2022 Notes. The Conversion Condition for the 2018 Notes was met for the quarters ended June 30, 2017, September 30, 2017, December 31, 2017 and March 31, 2018. Therefore, the 2018 Notes became convertible at the holders' option beginning on July 1, 2017 and continued to be convertible at the holders' option through June 30, 2018. Any conversion requests received subsequent to June 30, 2018 were settled on the maturity date, which was November 1, 2018.

During the nine months ended September 30, 2018, we paid cash to settle $413.2 million principal amount of the 2018 Notes and recorded a loss on early note conversions of $4.1 million. The loss on early note conversions for the three months ended September 30, 2018 was not material. As a result of the settlements, we also recorded a $6.4 million net reduction to additional paid-in capital, reflecting $554.4 million of fair value adjustments to the conversion option settled, offset by a $548.0 million benefit from the 2018 Note Hedges (as defined below).

For statement of cash flow presentation, we bifurcated the $413.2 million paid during the nine months ended September 30, 2018 into two components: the portion of the repayment attributable to debt discount is classified as cash outflows from operating activities, and the portion of the repayment attributable to the principal is classified as cash outflows from financing activities.

We settled the remaining principal amount of the 2018 Notes in cash for an aggregate of $161.8 million on the maturity date, which was November 1, 2018. Refer to Note 19 for further details.

We consider the fair value of the Notes at September 30, 2018 to be a Level 2 measurement. The estimated fair values of the Notes at September 30, 2018 and December 31, 2017 based on the closing trading price per $100 of the Notes were as follows (in thousands):

	September 30, 2018	December 31, 2017
2022 Notes	$1,168,859	$897,778
2018 Notes	$425,035	$1,015,554

As of September 30, 2018, the remaining life of the 2022 Notes and 2018 Notes are 44 months and one month, 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,	
	2018	2017	2018	2017
Amortization of debt issuance cost				
2022 Notes	$385	$367	$1,141	$489
2018 Notes	175	481	1,082	1,421
Amortization of debt discount				
2022 Notes	7,585	7,222	22,479	9,610
2018 Notes	3,088	8,496	19,093	25,061
Total	$11,233	$16,566	$43,795	$36,581
Effective interest rate of the liability component				
2022 Notes	4.75%			
2018 Notes	6.50%			

Table of Contents

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 (in thousands)	Shares
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.

During the nine months ended September 30, 2018, the Note Hedge counterparties paid $548.0 million in cash to holders of the 2018 Notes from the exercise of a portion of the 2018 Note Hedges. As of September 30, 2018, 2.2 million shares remain subject to the 2018 Note Hedge due to early conversions that have occurred through September 30, 2018.

Warrants

	Proceeds (in thousands)	Shares	Strike Price	First Expiration Date
2022 Warrants	$54,071	5,806,936	$203.40	September 1, 2022
2018 Warrants	$84,525	7,783,023	$107.46	February 1, 2019

Separately, we entered into warrant transactions with certain investment banks, whereby we sold warrants to acquire, subject to adjustment, the number of shares of our common stock shown in the table above (the 2022 Warrants and 2018 Warrants, respectively, and collectively, the Warrants). 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. According to the terms of each of the Warrants, the Warrants will be automatically exercised over a 60 trading day period beginning on the first expiration date of the respective Warrants as set forth above. 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.

Based on the stock price as of September 30, 2018, we expect to issue additional shares in the first half of 2019 upon the exercise of the 2018 Warrants. As the warrants will be net share settled, the number of shares we will issue depends on the stock price over a 60 trading day period beginning on the first expiration date of the 2018 Warrants,

which is February 1, 2019.

(12) Accumulated Other Comprehensive Income (Loss)

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

	September 30, 2018	December 31, 2017 *As Adjusted
Foreign currency translation adjustment	$2,459	$ 2,246
Net unrealized gain (loss) on investments, net of tax[1]	(3,877)	3,521
Accumulated other comprehensive income (loss)	$(1,418)	$ 5,767

Table of Contents

(1) The net unrealized gain (loss) on investments as of September 30, 2018 includes a cumulative-effect adjustment, net of tax of $7.2 million resulting from our adoption of ASU 2016-01. See Note 2 for further details.
*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

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

(13) Stockholders' Equity

Common Stock

Under our restated certificate of incorporation, we were authorized to issue 600,000,000 shares of common stock as of September 30, 2018. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of September 30, 2018, we had 179,305,339 shares of common stock outstanding and had reserved shares of common stock for future issuance as follows:

	September 30, 2018
Stock plans:	
Options outstanding	1,905,320
RSUs[1]	10,993,646
Shares of common stock available for future grants:	
2012 Equity Incentive Plan[2]	31,982,552
2012 Employee Stock Purchase Plan[2]	10,714,423
Total shares of common stock reserved for future issuance	55,595,941

(1) Represents the number of shares issuable upon settlement of outstanding RSUs and performance-based RSUs, assuming 100% of the target number of shares are issuable for the 2018 performance-based RSUs, as discussed under the section entitled "RSUs" in Note 14.

(2) Refer to Note 14 for a description of these plans.

During the nine months ended September 30, 2018 and 2017, we issued a total of 5,029,475 shares and 5,816,968 shares, respectively, from stock option exercises, vesting of restricted stock units (RSUs), net of shares withheld to satisfy employee payroll taxes, and purchases under our 2012 Employee Stock Purchase Plan (the 2012 ESPP).

(14) 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, 2018, 8,713,793 shares of common stock were automatically added to the 2012 Plan pursuant to the provision described in the preceding sentence.

Our 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, 2018, 1,742,758 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, 2018 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, 2017	3,369,732	$ 38.43		
Exercised	(621,330)	27.83		$ 77,936
Canceled	(61,168)	68.12		
Outstanding at March 31, 2018	2,687,234	40.21		
Exercised	(486,160)	18.02		$ 73,805
Canceled	(31,584)	74.84		
Outstanding at June 30, 2018	2,169,490	44.67		
Exercised	(264,170)	32.38		$ 40,573
Outstanding at September 30, 2018	1,905,320	$ 46.37	5.53	$ 284,385
Vested and expected to vest as of September 30, 2018	1,893,113	$ 46.19	5.52	$ 282,901
Vested and exercisable as of September 30, 2018	1,346,401	$ 31.23	4.43	$ 221,342

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding in-the-money options. The total fair value of stock options vested during the nine months ended September 30, 2018 was $10.2 million.

As of September 30, 2018, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately $13.9 million. The weighted-average remaining vesting period of unvested stock options at September 30, 2018 was 2.55 years.

RSUs

A summary of RSU activity for the nine months ended September 30, 2018 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (Per Share)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2017	11,403,341	$ 81.50	
Granted	4,078,322	151.13	
Vested	(1,854,662)	73.94	$ 281,822
Forfeited	(348,849)	87.01	
Outstanding at March 31, 2018	13,278,152	103.80	
Granted	377,766	173.35	
Vested	(1,288,135)	71.70	$ 226,722
Forfeited	(253,821)	99.79	
Outstanding at June 30, 2018	12,113,962	109.43	
Granted	336,876	189.59	
Vested	(1,223,614)	81.69	$ 225,348
Forfeited	(233,578)	107.57	
Outstanding at September 30, 2018	10,993,646	$ 115.02	$ 2,150,687

RSUs granted to employees under the 2012 Plan generally vest over a four-year period. As of September 30, 2018, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately $914.3 million and the weighted-average remaining vesting period was 2.91 years.

Included in the RSU activity table above are RSUs with both service and performance-based vesting criteria that were granted to certain employees. The number of shares eligible to vest for the performance-based RSUs (PRSUs) will depend upon achievement of a corporate performance metric, with level of achievement determined by the Leadership Development and Compensation Committee of our Board of Directors in January of the year following the grant. The ultimate number of shares eligible to vest for PRSUs range from 0% to 180% of the target number of shares depending on achievement relative to the performance metric over the applicable period. The eligible shares subject to PRSUs granted during the nine months ended September 30, 2018 will vest 33% in February 2019 and continue to vest quarterly for the remaining two subsequent years, contingent on each holder’s continuous status as a service provider on the applicable vesting dates. The PRSUs shown in the table above reflect the number of shares that would be eligible to vest at 100% of target performance, in the case of PRSUs for which achievement has not yet been determined, and reflect adjustments for over- or under- achievement, in the case of PRSUs for which achievement has already been determined. We recognized $65.7 million and $28.4 million of stock-based compensation expense, net of actual and estimated forfeitures, associated with PRSUs on a graded vesting basis during the nine months ended September 30, 2018 and 2017, respectively.

(15) Net Income (Loss) Per Share

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Numerator:				
Net income (loss)	$8,405	$(22,182)	$(33,719)	$(99,500)
Denominator:				
Weighted-average shares outstanding - basic	178,719,694	164,883,190	177,198,179	170,359,717
Weighted-average effect of potentially dilutive securities:				
Common stock options	1,438,359	—	—	—
Restricted stock units	5,477,421	—	—	—
ESPP obligations	2,093	—	—	—
In-the-money portion of 2018 Notes	1,523,555	—	—	—
2018 Warrants	3,360,525	—	—	—
In-the-money portion of 2022 Notes	1,669,252	—	—	—
Weighted-average shares outstanding - diluted	192,190,899	164,883,190	177,198,179	170,359,717
Net income (loss) per share - basic	$0.05	$(0.13)	$(0.19)	$(0.58)
Net income (loss) per share - diluted	$0.04	$(0.13)	$(0.19)	$(0.58)

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Common stock options	—	4,117,639	1,905,320	4,117,639
Restricted stock units	931,035	12,306,875	10,993,646	12,306,875
ESPP obligations	—	363,951	317,940	363,951
2018 convertible senior notes	—	7,783,023	2,190,631	7,783,023
Warrants related to the issuance of 2018 convertible senior notes	—	7,783,023	7,783,023	7,783,023
2022 convertible senior notes	—	5,806,933	5,806,933	5,806,933
Warrants related to the issuance of 2022 convertible senior notes	5,806,933	5,806,933	5,806,933	5,806,933
Total potentially dilutive securities	6,737,968	43,968,377	34,804,426	43,968,377

(16) 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 (16)% and 18% for the three and nine months ended September 30, 2018, which was lower than the U.S. federal statutory tax rate of 21%. For the three months ended September 30, 2018, the lower tax rate was primarily attributable to excess tax benefits of stock-based compensation and loss from domestic operations. For the nine months ended September 30, 2018, the lower tax rate was primarily attributable to the one-time indirect effect of

Topic 606 on income taxes associated with intercompany adjustments offset by our loss from operations.

Table of Contents

Our effective tax rate was (11)% and 1% 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 and excess tax benefits of stock-based compensation.

We are subject to taxation in the United States and foreign jurisdictions. As of September 30, 2018, our tax years 2004 to 2017 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.

(17) 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, 2018 are presented in the table below (in thousands):

	Operating Leases	**Purchase Obligations**[1]	**Other**	**Total**
Years Ending December 31,				
Remainder of 2018	$11,388	$21,252	$210	$32,850
2019	50,203	42,542	841	93,586
2020	52,047	30,972	874	83,893
2021	51,092	13,846	891	65,829
2022	54,588	5,984	891	61,463
Thereafter	591,269	4,512	371	596,152
Total	$810,587	$119,108	$4,078	$933,773

(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, 2018, we would have been obligated to pay cancellation penalties of approximately $18.1 million in aggregate.

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. Refer to Note 11 for further information regarding our Notes. On November 1, 2018, we repaid the remaining 2018 Notes with an aggregate principal amount of $161.8 million. Refer to Note 19 for further details of the 2018 Notes repayment.

In addition to the obligations in the table above, approximately $6.5 million of unrecognized tax benefits have been recorded as liabilities as of September 30, 2018.

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.

Table of Contents

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.

(18) 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,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
North America (1)	$451,457	$325,695	$1,252,189	$925,709
EMEA (2)	161,688	126,044	474,758	336,090
Asia Pacific and other	59,952	40,633	166,428	107,602
Total revenues	$673,097	$492,372	$1,893,375	$1,369,401

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

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

	September 30, 2018	December 31, 2017
North America(3)	$190,586	$164,040
EMEA(2)	71,547	50,028
Asia Pacific and other	35,238	31,056
Total property and equipment, net	$297,371	$245,124

(1) Revenues attributed to the United States were approximately 94% of North America revenues for each of the three and nine months ended September 30, 2018 and 2017.
(2) Europe, the Middle East and Africa
(3) Property and equipment, net attributed to the United States were approximately 86% and 89% of property and equipment, net attributable to North America as of September 30, 2018 and December 31, 2017, respectively.

Subscription revenues consist of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Service management products	$533,007	$394,603	$1,490,283	$1,094,765
ITOM products	93,560	54,903	264,891	144,997
Total subscription revenues	$626,567	$449,506	$1,755,174	$1,239,762

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

Our service management products include our platform, IT service management, IT business management, customer service management, HR service delivery and security operations, and are generally priced on a per user basis. Our IT operations management (ITOM) products are generally priced on a per node basis.

(19) Subsequent Events

In October 2018, we paid approximately $12.5 million in cash to acquire certain engineering talent, intangible assets, and a nonexclusive license from two privately-held companies. Both transactions will be accounted for as business combinations. Our accounting and analyses of these transactions are pending completion.

On November 1, 2018, the 2018 Notes matured and the remaining $161.8 million in principal amount of the 2018 Notes was settled in cash. The conversion value over the principal amount was satisfied with shares of our common stock, which was entirely offset by shares of our common stock delivered to us by the Note Hedge counterparties under the 2018 Note Hedge, and cash in lieu of fractional shares. The 2018 Notes and 2018 Note Hedge are no longer outstanding, and the 2018 Warrants remain outstanding as of the date of this filing. Based on the stock price as of September 30, 2018, the number of shares to be issued upon exercise of the 2018 Warrants would be approximately 3.5 million.

Table of Contents

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, 2017 included in the Annual Report on Form 10-K dated as of, and filed with the Securities and Exchange Commission (the SEC), on February 28, 2018 (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 (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.

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

Our billings and free cash flow measures included in the sections entitled "—Key Business Metrics—Billings," and "—Key Business Metrics—Free Cash Flow" are not presented 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 encourage investors to carefully consider our results under GAAP, as well as our supplemental non-GAAP information and the reconciliation between these presentations, to more fully understand our business.

Overview

ServiceNow is a leading provider of enterprise cloud computing solutions that define, structure, manage and automate services for global enterprises. We help our customers improve service quality 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, customers deploy our software internally or contract with a third party to host the software to support their 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 subscription service during the subscription term. Pricing for our

subscription services is based on a number of factors, including duration of subscription term, volume, mix of products purchased, and discounts. We generate sales through our direct sales team and, to a lesser extent, indirectly through resale partners and third-party referrals. We also generate revenues from professional services and for training of customer and partner personnel. 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 7,661 as of September 30, 2018 from 5,895 as of September 30, 2017.

Table of Contents

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 614 and 447 customers with ACV greater than $1 million as of September 30, 2018 and 2017, 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 comparability purposes. We also adjust the G2K count for acquisitions, spin-offs and other market activity. 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 does not include large private companies, government agencies and educational organizations, which represent a growing portion of our customer base. As a result, we expect our G2K customer count metric to become less relevant to our business over time. Our G2K customer count was 860 and 789 as of September 30, 2018 and 2017, 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. Prior G2K customer counts used in calculating ACV per G2K customer are adjusted for the most recent Forbes Global 2000 list for comparability purposes. Our average ACV per G2K customer was approximately $1.5 million and $1.2 million as of September 30, 2018 and 2017, 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 sum of (i) the total ACV from all customers that renewed during the period, excluding changes in price or users, and (ii) the total ACV from all customers lost during the period. Accordingly, our renewal rate is calculated based on ACV and is not based on the number of customers that have renewed. Further, our renewal rate does not reflect increased or decreased purchases from our customers to the extent such customers are not lost customers. 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% for each of the three months ended September 30, 2018 and 2017, and 98% and 97% for the nine months ended September 30, 2018 and 2017, 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.

Total backlog. Total backlog consists of unbilled backlog, deferred revenue and customer deposits. Unbilled backlog is an operational measure representing future unearned revenue amounts believed to be firm that are to be invoiced under our existing agreements and are not included in the deferred revenue or customer deposits on our consolidated balance sheets. In our previous Annual Reports on Form 10-K, we referred to unbilled backlog as “backlog.” We believe total backlog is a useful measure of customer adoption of our services.

As of September 30, 2018, our total backlog was $4.4 billion, of which $3.0 billion was unbilled backlog and $1.4 billion was deferred revenue and customer deposits. Of this total backlog, we expect to recognize approximately 51% in revenues over the 12 months following September 30, 2018, with the balance to be recognized thereafter.

Table of Contents

As of December 31, 2017, our total backlog was $3.8 billion, of which $2.5 billion was unbilled backlog and $1.3 billion was deferred revenue and customer deposits, which reflects the impact of the full retrospective adoption of Topic 606. For the disclosure of unbilled backlog prior to the adoption of Topic 606, see the section entitled "Business" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 28, 2018.

We expect total backlog to fluctuate due to a number of factors, including the timing, duration and size of customer contracts, the mix of cloud and self-hosted offerings and foreign exchange rate fluctuations.

Billings. We define billings, a non-GAAP financial measure, as revenues recognized plus the change in total unbilled receivables, deferred revenue and customer deposits as presented on the condensed consolidated statements of cash flows. Prior to adopting Topic 606 on January 1, 2018, we had defined billings in previous filings as revenues recognized plus the change in total deferred revenue as presented on the condensed consolidated statements of cash flows. Our current definition better aligns with Topic 606, which became effective for our interim and annual periods beginning January 1, 2018. 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 regarding Topic 606.
A calculation of billings is provided below (dollars in thousands):

	Three Months Ended September 30,		% Change	Nine Months Ended September 30,		% Change
	2018	**2017 *As Adjusted**		**2018**	**2017 *As Adjusted**	
Billings:						
Total revenues	$673,097	$492,372	37 %	$1,893,375	$1,369,401	38 %
Change in total deferred revenue, unbilled receivables and customer deposits[(1)]	47,444	54,486	(13)%	182,418	194,535	(6)%
Total billings	$720,541	$546,858	32 %	$2,075,793	$1,563,936	33 %

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.
(1) As presented on or derived from our condensed consolidated statements of cash flows.

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

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

- *Contract start date*. From time to time, we enter into contracts with a contract start date in the future, and we exclude these amounts from billings as these amounts are not included in our 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 selling additional products or services to an existing customer, a customer may decide to renew its existing contract early to ensure that all its contracts expire on the same date. In other cases, prolonged negotiations or other factors may result in a contract not being renewed until after it has expired.

While we believe billings is a useful leading indicator regarding the performance of our business, due to the factors described above, 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.

Table of Contents

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 average exchange rates in effect during the prior period presented, rather than the actual exchange rates in effect during the current period. The impact of fluctuations in billings duration is calculated by replacing the portion of multi-year billings in excess of 12 months during the current period with the portion of multi-year billings in excess of 12 months during the prior period presented. Notwithstanding the adjustments described above, the comparability of billings results from period to period remains subject to the impact of variations in the dollar value of contracts with future start dates and the timing of contract renewals, for which no adjustments have been presented.

Foreign currency rate fluctuations had an unfavorable impact of $3.3 million on billings for the three months ended September 30, 2018 and a favorable impact $42.7 million on billings for the nine months ended September 30, 2018. Changes in billings duration had a favorable impact of $4.8 million and $3.5 million for the three and nine months ended September 30, 2018, 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. In addition, agreements entered into with the U.S. federal government have historically been higher in the third quarter of each year, driven primarily by timing of annual budget 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 cloud-offering 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 from our cloud offerings 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 (dollars in thousands):

	Nine Months Ended September 30,		**% Change**
	2018	**2017**	
Free cash flow:			
Net cash provided by operating activities	$521,477	$458,157	14 %
Purchases of property and equipment	(136,349)	(115,856)	18 %
Free cash flow[1]	$385,128	$342,301	13 %

(1)

Free cash flow for the nine months ended September 30, 2018 includes the effect of $101.6 million relating to the repayments of convertible senior notes attributable to debt discount.

Average contract term. We calculate the average contract term for new customers, expansion contracts, 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 32 months and 29 months for the three months ended September 30, 2018 and 2017, respectively, and 35 months and 31 months for the nine months ended September 30, 2018 and 2017, respectively. The average expansion contract term was 24 months and 22 months for the three months ended September 30, 2018 and 2017, respectively, and 25 months for each of the nine months ended September 30, 2018 and 2017. The average renewal contract term was 25 months for each of the three months ended September 30, 2018 and 2017, and 27 months and 26 months for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

Components of Results of Operations

Revenues

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

Professional services and other revenues. Professional services revenues consist of fees associated with professional services. 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 consist of fees from customer training delivered on-site or through publicly available classes. Typical payment terms require our customers to pay us within 30 days of invoice.

We generate sales directly through our sales team and, to a lesser extent, through our resale partners. Revenues from our direct sales organization represented 82% and 88% of our total revenues for the three months ended September 30, 2018 and 2017, respectively, and 84% and 89% for the nine months ended September 30, 2018 and 2017, respectively. We make sales to our resale partners at a discount and record those revenues at the discounted price when all revenue recognition criteria have been 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 generally 10% of the customer’s net new ACV. We include the amortization of these referral 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 include 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.

Table of Contents

Professional 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 16% and 21% for the three months ended September 30, 2018 and 2017, respectively, and 18% and 22% for the nine months ended September 30, 2018 and 2017, respectively.

Sales and Marketing

Sales and marketing expenses consist primarily of personnel-related expenses directly associated with our sales and marketing staff, including salaries, benefits, bonuses and stock-based compensation. Sales and marketing expenses also include the amortization of commissions paid to our sales employees and third-party referral fees, including related payroll taxes and fringe benefits. In addition, sales and marketing expenses include expenses offset by proceeds related to our annual Knowledge user conference, other marketing program expenses, which include events other than Knowledge, and costs associated with purchasing advertising and marketing data, and allocated overhead. As part of our adoption of Topic 606, during the three and nine months ended September 30, 2018, we recorded a decrease in sales and marketing expenses and a corresponding increase to our deferred commissions asset of $7.4 million and $5.4 million, respectively. These adjustments reflect the correction of previously undercapitalized incremental fringe benefit costs associated with sales commissions that were paid since 2012. We concluded that these adjustments were not material to the current period or any previously reported periods presented, as adjusted for the full retrospective adoption of Topic 606.

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, facilities and administrative personnel, including salaries, benefits, bonuses and stock-based compensation, external legal, accounting and other professional services fees, other corporate expenses, amortization of intangible assets and allocated overhead.

Provision for Income Taxes

Provision for income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our U.S. deferred tax assets as of September 30, 2018. We consider all available evidence, both positive and negative, including but not limited to earnings history, projected future outcomes, industry and market trends and the nature of each of the deferred tax assets in assessing the extent to which a valuation allowance should be applied against our U.S. deferred tax assets.

Table of Contents

Results of Operations

To enhance comparability, the following table sets forth our results of operations for the periods presented (in thousands). 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,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Revenues:				
Subscription	$626,567	$449,506	$1,755,174	$1,239,762
Professional services and other	46,530	42,866	138,201	129,639
Total revenues	673,097	492,372	1,893,375	1,369,401
Cost of revenues(1):				
Subscription	106,821	81,878	303,918	228,046
Professional services and other	51,037	45,608	150,578	137,652
Total cost of revenues	157,858	127,486	454,496	365,698
Gross profit	515,239	364,886	1,438,879	1,003,703
Operating expenses(1):				
Sales and marketing	289,323	217,866	883,893	643,998
Research and development	135,655	98,465	380,839	272,959
General and administrative	80,693	52,465	216,851	150,242
Total operating expenses	505,671	368,796	1,481,583	1,067,199
Income (loss) from operations	9,568	(3,910)	(42,704)	(63,496)
Interest expense	(11,233)	(16,566)	(43,795)	(36,581)
Interest income and other income (expense), net	8,895	579	45,520	(177)
Income (loss) before income taxes	7,230	(19,897)	(40,979)	(100,254)
Provision for (benefit from) income taxes	(1,175)	2,285	(7,260)	(754)
Net income (loss)	$8,405	$(22,182)	$(33,719)	$(99,500)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017 *As Adjusted	2018	2017 *As Adjusted
Cost of revenues:				
Subscription	$12,775	$8,980	$36,604	$25,860
Professional services and other	8,407	7,056	24,310	21,548
Sales and marketing	60,132	43,962	169,283	124,650
Research and development	35,527	23,092	97,905	67,624
General and administrative	27,567	17,352	73,207	48,695
Total stock-based compensation	$144,408	$100,442	$401,309	$288,377

*As adjusted to reflect the impact of the full retrospective adoption of Topic 606. See Note 2 for further details.

Table of Contents

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,**			
	2018		**2017 *As Adjusted**		**2018**		**2017 *As Adjusted**	
Revenues:								
Subscription	93	%	91	%	93	%	91	%
Professional services and other	7		9		7		9	
Total revenues	100		100		100		100	
Cost of revenues[(1)]:								