ServiceNow, Inc.
Form 10-Q
May 07, 2015

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 March 31, 2015
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.
3260 Jay Street
Santa Clara, California 95054
(408) 501-8550
(Registrant's telephone number, including area code)

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

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

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

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

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 April 30, 2015, there were approximately 153.8 million shares of the Registrant's Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$307,981	$252,455
Short-term investments	437,029	416,336
Accounts receivable, net	142,720	159,171
Current portion of deferred commissions	42,344	43,232
Prepaid expenses and other current assets	53,860	35,792
Total current assets	983,934	906,986
Deferred commissions, less current portion	27,696	29,453
Long-term investments	253,625	266,772
Property and equipment, net	115,438	104,237
Intangible assets, net	49,916	54,526
Goodwill	54,913	55,016
Other assets	8,120	8,089
Total assets	$1,493,642	$1,425,079
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,192	$17,829
Accrued expenses and other current liabilities	72,190	79,497
Current portion of deferred revenue	450,544	409,671
Total current liabilities	540,926	506,997
Deferred revenue, less current portion	12,789	12,567
Convertible senior notes, net	451,323	443,764
Other long-term liabilities	33,694	33,076
Total liabilities	1,038,732	996,404
Stockholders' equity:		
Common stock	153	150
Additional paid-in capital	887,111	799,221
Accumulated other comprehensive loss	(15,678)	(12,113)
Accumulated deficit	(416,676)	(358,583)
Total stockholders' equity	454,910	428,675
Total liabilities and stockholders' equity	$1,493,642	$1,425,079

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31, 2015	2014
Revenues:		
Subscription	$179,907	$117,375
Professional services and other	32,057	21,715
Total revenues	211,964	139,090
Cost of revenues[1]:		
Subscription	42,444	31,189
Professional services and other	34,455	21,925
Total cost of revenues	76,899	53,114
Gross profit	135,065	85,976
Operating expenses[1]:		
Sales and marketing	110,057	69,416
Research and development	49,848	31,110
General and administrative	29,392	21,631
Total operating expenses	189,297	122,157
Loss from operations	(54,232)	(36,181)
Interest and other expense, net	(2,874)	(5,963)
Loss before provision for income taxes	(57,106)	(42,144)
Provision for income taxes	987	1,167
Net loss	$(58,093)	$(43,311)
Net loss per share - basic and diluted	$(0.38)	$(0.30)
Weighted-average shares used to compute net loss per share - basic and diluted	151,601,880	142,060,025
Other comprehensive income (loss):		
Foreign currency translation adjustments	$(4,059)	$175
Unrealized gain on investments	772	25
Tax provision	278	—
Other comprehensive income (loss), net of tax	(3,565)	200
Comprehensive loss	$(61,658)	$(43,111)

(1) Includes stock-based compensation as follows:

	Three Months Ended March 31, 2015	2014
Cost of revenues:		
Subscription	$5,165	$3,076
Professional services and other	5,213	2,392
Sales and marketing	22,574	9,043
Research and development	15,638	7,839
General and administrative	9,484	6,879

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(58,093)	$(43,311)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,824	7,938
Amortization of premiums on investments	1,830	1,814
Amortization of deferred commissions	15,597	11,149
Amortization of debt discount and issuance costs	7,578	7,081
Stock-based compensation	58,074	29,229
Tax benefit from exercise of stock options	—	(940)
Other	(1,943)	507
Changes in operating assets and liabilities:		
Accounts receivable	10,436	(27)
Deferred commissions	(15,400)	(13,232)
Prepaid expenses and other assets	(18,887)	(8,910)
Accounts payable	6	12,075
Deferred revenue	55,861	42,172
Accrued expenses and other liabilities	(1,517)	(21,328)
Net cash provided by operating activities	67,366	24,217
Cash flows from investing activities:		
Purchases of property and equipment	(26,699)	(10,968)
Acquisition, net of cash acquired	(1,100)	—
Purchases of investments	(132,364)	(134,856)
Sale of investments	49,412	25,528
Maturities of investments	76,386	44,668
Restricted cash	31	(55)
Net cash used in investing activities	(34,334)	(75,683)
Cash flows from financing activities:		
Proceeds from employee stock plans	29,739	22,214
Tax benefit from exercise of stock options	—	940
Net cash provided by financing activities	29,739	23,154
Foreign currency effect on cash and cash equivalents	(7,245)	(71)
Net increase (decrease) in cash and cash equivalents	55,526	(28,383)
Cash and cash equivalents at beginning of period	252,455	366,303
Cash and cash equivalents at end of period	$307,981	$337,920
Supplemental disclosures of non-cash investing activities:		
Property and equipment included in accounts payable, accrued expenses and other liabilities	$14,206	$11,088

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 cloud-based solutions that define, structure, manage and automate services across the global enterprise. By applying a service-oriented lens to the activities, tasks and processes that comprise day-to-day work life, we help the modern enterprise operate faster and be more scalable than ever before.

(2) Summary of Significant Accounting Policies

Basis of Presentation
The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for fair statement of results for the interim periods presented have been included. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ended December 31, 2015 or for other interim periods or for future years. The condensed consolidated balance sheet as of December 31, 2014 is derived from audited financial statements as of that date, however, it does not include all of the information and footnotes required by accounting principles generally accepted in the United States 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 the Company’s Form 10-K for the year ended December 31, 2014, which was filed with the Securities and Exchange Commission on February 27, 2015.

Principles of Consolidation

The condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, or GAAP, and include our accounts and the accounts of our wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of 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. Actual results could differ from those estimates.

Warranties and Indemnification

Our cloud-based service to automate enterprise service is typically warranted to perform in material conformance with specifications.

We include service level commitments to our customers that permit those customers to receive credits in the event we fail to meet those levels. We establish an accrual based on historical credits paid and an evaluation of the performance of our services including an assessment of the impact, if any, of any known service disruptions. Service level credit accrual charges are recorded against revenue. The service level credit accrual was not material as of March 31, 2015 and December 31, 2014.

We have also agreed to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person’s service as a director or officer, including any action by us, arising out of that person’s services as a director or officer of our company or that person’s services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that may enable us to recover a portion of any future amounts paid. The fair values of these obligations are not material as of each balance sheet date.

Our arrangements include provisions indemnifying customers against intellectual property and other third-party claims. We have not incurred any costs as a result of such indemnifications and have not recorded any liabilities related to such obligations in the consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued an update to ASC 606 Revenue from Contracts with Customers, or ASC 606, that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. On April 1, 2015, the FASB proposed a one year deferral of the effective date to December 15, 2017 and early application would be permitted, but not before the original effective date of December 15, 2016. We are currently evaluating the impact of this update on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, this new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance will become effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. This ASU is not expected to have a significant impact on our financial statements or disclosures.

(3) Investments

The following is a summary of our investments excluding those securities classified within cash and cash equivalents on the consolidated balance sheets (in thousands):

	March 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Available-for-sale securities:					
Commercial paper	$9,989	$4	$—		$9,993
Corporate notes and bonds	543,714	131	(261	)	543,584
Certificates of deposit	33,350	14	—		33,364
U.S. government agency securities	103,681	37	(5	)	103,713
Total available-for-sale securities	$690,734	$186	$(266	)	$690,654

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
Available-for-sale securities:					
Commercial paper	$8,195	$1	$—		$8,196
Corporate notes and bonds	554,421	56	(845	)	553,632
Certificates of deposit	27,251	8	(2	)	27,257
U.S. government agency securities	94,093	2	(72	)	94,023

Total available-for-sale securities	$683,960	$67	$(919)	$683,108

As of March 31, 2015, the contractual maturities of our investments did not exceed 24 months. The fair values of available-for-sale investments, by remaining contractual maturity, are as follows (in thousands):

	March 31, 2015
Due in 1 year or less	$437,029
Due in 1 year through 2 years	253,625
Total	$690,654

We had certain available-for-sale securities in a gross unrealized loss position, substantially all of which had been in such position for less than 12 months. 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. The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment types (in thousands):

	March 31, 2015		December 31, 2014	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and bonds	295,357	(261)	436,140	(845)
Certificates of deposit	—	—	7,999	(2)
U.S. government agency securities	25,018	(5)	80,014	(72)
Total	$320,375	$(266)	$524,153	$(919)

(4) Fair Value Measurements

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis at March 31, 2015 (in thousands):

	Level 1	Level 2	Total
Cash equivalents:			
Money market funds	45,538	—	45,538
Commercial paper	—	1,000	1,000
Short-term investments:			
Commercial paper	—	9,993	9,993
Corporate notes and bonds	—	350,630	350,630
Certificates of deposit	—	31,363	31,363
U.S. government agency securities	—	45,043	45,043
Long-term investments:			
Corporate notes and bonds	—	192,954	192,954
Certificates of deposit	—	2,001	2,001
U.S. government agency securities	—	58,670	58,670
Total	$45,538	$691,654	$737,192

The following table presents our fair value hierarchy for our assets measured at fair value on a recurring basis at December 31, 2014 (in thousands):

	Level 1	Level 2	Total
Cash and cash equivalents:			
Money market funds	46,541	—	46,541
Commercial paper	—	4,600	4,600
Short-term investments:			
Commercial paper	—	8,196	8,196
Corporate notes and bonds	—	342,864	342,864
Certificates of deposit	—	25,258	25,258
U.S. government agency securities	—	40,018	40,018
Long-term investments:			
Corporate notes and bonds	—	210,768	210,768
Certificates of deposit	—	1,999	1,999
U.S. government agency securities	—	54,005	54,005
Total	$46,541	$687,708	$734,249

We determine the fair value of our security holdings based on pricing from our service provider 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.

(5) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Events	$18,362	$2,882
Other	35,498	32,910
Total prepaid expenses and other current assets	$53,860	$35,792

The increase in prepaid events is primarily related to expenses paid for Knowledge, our annual user conference, which occurred in April 2015.

(6) Acquisition

On February 27, 2015, we completed the acquisition of Intreis, Inc., a professional services company with domain expertise in enterprise governance, risk and compliance solutions. Of the $1.6 million in total purchase consideration, $0.2 million is allocated to net tangible assets and $1.4 million is allocated to goodwill, which represents the synergies expected from the workforce integration. The goodwill balance is deductible for U.S. income tax purposes. $0.5 million of the total purchase consideration will be paid one year following the close of the acquisition. The results of operations of Intreis have been included in our consolidated financial statements from the date of purchase. This business combination did not have a material impact on our consolidated financial statements, and therefore pro forma disclosures have not been presented.

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(7) Goodwill and Intangible Assets

Goodwill balances are presented below (in thousands):

	Carrying Amount
Balance as of December 31, 2014	$55,016
Goodwill acquired	1,442
Foreign currency translation adjustments	(1,545)
Balance as of March 31, 2015	$54,913

Intangible assets consist of the following (in thousands):

	March 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$57,995	$(9,236)	$48,759
Backlog	587	(282)	305
Other acquisition-related intangible assets	554	(408)	146
Acquisition-related intangible assets	59,136	(9,926)	49,210
Other intangible assets	1,075	(369)	706
Total intangible assets	$60,211	$(10,295)	$49,916

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$59,895	$(6,727)	$53,168
Backlog	588	(184)	404
Other acquisition-related intangible assets	597	(398)	199
Acquisition-related intangible assets	61,080	(7,309)	53,771
Other intangible assets	1,075	(320)	755
Total intangible assets	$62,155	$(7,629)	$54,526

Amortization expense for intangible assets for the three months ended March 31, 2015 and 2014 was approximately $3.0 million and $0.4 million, respectively.

(8) Property and Equipment

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

	March 31, 2015	December 31, 2014
Computer equipment and software	$142,629	$128,546
Furniture and fixtures	18,905	18,253
Leasehold improvements	16,535	14,929
Building	6,225	—
Construction in progress	3,833	9,762
	188,127	171,490
Less: Accumulated depreciation	(72,689)	(67,253)
Total property and equipment, net	$115,438	$104,237

During the year ended December 31, 2014, we entered into a new lease for office space in Tel Aviv, Israel. We concluded for accounting purposes, that we were considered the owner of the building during the construction period as we were responsible to fund the construction costs related to structural improvements necessary to make the space ready for use. Following completion of construction during the three months ended March 31, 2015, we concluded we retained continuing involvement to preclude de-recognition of the building. As such, we continue to account for the building as owned real estate and record a financing obligation for our obligation to the legal owner. The building is reflected as an asset on our balance sheet through May 31, 2025, the period of intended use, and depreciated on a straight-line basis over a period of approximately 39 years. Rent payments made under this lease will be recorded as interest expense and principal reduction to the financing obligation.

Construction in progress consists primarily of leasehold improvements and in-process software development costs. Depreciation expense for the three months ended March 31, 2015 and 2014 was $10.8 million and $7.5 million, respectively.

(9) Accrued Expenses and Other Current Liabilities

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

	March 31, 2015	December 31, 2014
Taxes payable	$7,413	$7,625
Bonuses and commissions	21,185	28,228
Accrued compensation	13,563	14,961
Other employee expenses	11,638	16,080
Other	18,391	12,603
Total accrued expenses and other current liabilities	$72,190	$79,497

(10) Convertible Senior Notes

In November 2013, we issued 0% convertible senior notes due November 1, 2018 with aggregate principal amount of $575 million (the "Notes"). The Notes will not bear interest. The Notes mature on November 1, 2018 unless converted or repurchased in accordance with their terms prior to such date. 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, we may choose to pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock. We intend to settle the principal amount of the Notes with cash. The Notes are convertible up to 7.8 million shares of our common stock at an initial conversion rate of approximately 13.54 shares of common stock per $1,000 principal amount, which is equal to an initial conversion price of approximately $73.88 per share of common stock, subject to adjustment. 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 July 1, 2018, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on March 31, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;

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

- upon the occurrence of specified corporate events.

On or after July 1, 2018, a holder may convert all or any portion of its notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

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 Notes plus any accrued and unpaid interest.

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 (“debt discount”) is amortized to interest expense using the effective interest method over the term of the Note. 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 term 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):

	March 31, 2015	December 31, 2014
Liability:		
Principal	$575,000	$575,000
Less: debt discount, net of amortization	(123,677)	(131,236)
Net carrying amount	$451,323	$443,764

We consider the fair value of the Notes at March 31, 2015 and December 31, 2014 to be a Level 2 measurement. The estimated fair values of the Notes were $707.2 million and $653.3 million at March 31, 2015 and December 31, 2014, respectively. The fair value was determined based on the closing trading price per $100 of the Notes on March 31, 2015. The Notes are not convertible as of March 31, 2015 and December 31, 2014.

As of March 31, 2015, the remaining life of the Notes is 43 months. The following table sets forth total interest expense recognized related to the Notes (in thousands):

	Three Months Ended March 31,	
	2015	2014
Amortization of debt issuance cost	$406	$380
Amortization of debt discount	7,172	6,701
Total	$7,578	$7,081
Effective interest rate of the liability component	6.5%	

Note Hedge

To minimize the impact of potential economic dilution upon conversion of the Notes, we entered into convertible note hedge transactions (the "Note Hedge") with respect to our common stock concurrent with the issuance of the Notes. The Note Hedge covers approximately 7.8 million shares of our common stock at a strike price per share that corresponds to the initial conversion price of the Notes, subject to adjustment, and is exercisable upon conversion of the Notes. We paid an aggregate amount of $135.8 million for the Note Hedge. The Note Hedge will expire upon maturity of the Notes. The Note Hedge is 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 Hedge is a separate transaction and is not part of the terms of the Notes. The Note Hedge does not impact earnings per share, as it was entered into to offset any dilution from the Notes.

Warrants

Separately, we entered into warrant transactions (the “Warrants”) whereby we sold warrants to acquire up to 7.8 million shares of our common stock, at a strike price of $107.46 per share, subject to adjustment. We received aggregate proceeds of $84.5 million from the sale of 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 Warrants, the Warrants will have a dilutive effect on our earnings per share. The Warrants are separate transactions and are not remeasured through earnings each reporting period. The Warrants are not part of the Notes or the Note Hedge, and have been accounted for as part of additional paid-in capital.

(11) Accumulated Other Comprehensive Loss

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

	March 31, 2015	December 31, 2014
Foreign currency translation adjustment	$(15,320)	$(11,261)
Net unrealized loss on investments, net	(358)	(852)
Accumulated other comprehensive loss	$(15,678)	$(12,113)

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

(12) Stockholders' Equity

Common Stock

We were authorized to issue 600,000,000 shares of common stock as of March 31, 2015. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of March 31, 2015, we had 153,190,839 shares of common stock outstanding and had reserved shares of common stock for future issuance as follows:

	March 31, 2015
Stock option plans:	
Options outstanding	13,506,834
RSUs	13,539,235
Stock awards available for future grants:	
2012 Equity Incentive Plan[1]	17,300,960
2012 Employee Stock Purchase Plan[1]	7,754,674
Total reserved shares of common stock for future issuance	52,101,703

(1) Refer to Note 13 for a description of these plans.

During the three months ended March 31, 2015 and 2014, we issued a total of 3,681,747 shares and 3,078,494 shares, respectively, from stock option exercises, vesting of restricted stock units, or RSUs, and purchases from the employee stock purchase plan, or ESPP.

(13) Stock Awards

We have a 2005 Stock Option Plan, or 2005 Plan, which provides for grants of stock awards, including options to purchase shares of common stock, stock purchase rights and RSUs to certain employees, officers, directors and consultants.

Our 2012 Equity Incentive Plan, or 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, or collectively, stock 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 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 the board of directors. On January 1, 2015, 7,475,454 shares of common stock were automatically added to the 2012 Plan pursuant to the provision described in the preceding sentence.

Our 2012 Employee Stock Purchase Plan, or 2012 ESPP, authorizes the issuance of shares of common stock pursuant to purchase rights granted to our employees. 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 the board of directors. The price at which common stock is purchased under the 2012 ESPP is equal to 85% of the fair market value of the 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. On January 1, 2015, 1,495,090 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 three months ended March 31, 2015 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, 2014	15,897,422	$11.96		
Granted	10,000	74.24		
Exercised	(2,332,662)	7.49		$155,415
Canceled	(67,926)	21.82		
Outstanding at March 31, 2015	13,506,834	$12.72	6.67	$892,218
Vested and expected to vest as of March 31, 2015	13,374,403	$12.46	6.65	$886,938
Vested and exercisable as of March 31, 2015	8,940,364	$7.36	6.30	$638,563

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options. The weighted-average grant date fair value per share of options granted was $34.37 for the three months ended March 31, 2015. The total fair value of shares vested was $10.5 million for the three months ended March 31, 2015.

As of March 31, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately $45.7 million. The weighted-average remaining vesting period of unvested stock options at March 31, 2015 was 2.22 years.

RSUs

A summary of RSU activity for the three months ended March 31, 2015 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (Per Share)	Aggregate Fair Value (in thousands)
Outstanding at December 31, 2014	9,941,074	$51.19	
Granted	4,890,067	72.33	
Vested	(1,088,974)	48.33	$81,658
Forfeited	(202,932)	54.65	
Non-vested and outstanding at March 31, 2015	13,539,235	$59.00	$1,066,621
Expected to vest as of March 31, 2015	12,059,372		$950,037

RSUs granted under the 2005 Plan and the 2012 Plan to employees generally vest annually over a four-year period. As of March 31, 2015, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately $634.5 million and the weighted-average remaining vesting period was 3.29 years.

In the three months ended March 31, 2015, we issued restricted stock units with both service and performance-based vesting criteria to certain executives. These restricted stock units will be eligible to vest based on our attainment of the 2015 financial performance goal as well as each executive's continued employment through the vesting date. In order to earn the restricted stock units, the low end of the predetermined goal must be met. The number of restricted stock units to be earned will range from 0% to 200% of the target awards based on the actual level of achievement of the financial performance goal. Shares earned will vest in four quarterly increments from August 2016 contingent on the continuous employment of each executive. We recognize stock-based compensation expense associated with these awards on a graded vesting basis over the vesting period, after assessing the probability of achieving the 2015 financial performance goal.

(14) Interest and other expense, net

The components of interest and other expense, net, consist of the following (in thousands):

	Three Months Ended March 31,	
	2015	2014
Interest expense related to the Notes	$(7,578)	$(7,081)
Interest income	948	663
Foreign currency exchange gain	3,826	451
Other	(70)	4
Interest and other expense, net	$(2,874)	$(5,963)

(15) Net Loss Per Share

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net loss	$(58,093)	$(43,311)
Denominator:		
Weighted-average shares outstanding—basic and diluted	151,601,880	142,060,025
Net loss per share:		
Basic	$(0.38)	$(0.30)
Diluted	$(0.38)	$(0.30)

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:

	March 31,	
	2015	2014
Common stock options	13,506,834	20,931,056
Restricted stock units	13,539,235	7,752,246
Common stock subject to repurchase	3,794	65,925
ESPP obligations	209,013	199,591
Convertible senior notes	7,783,023	7,783,023
Warrants related to the issuance of convertible senior notes	7,783,023	7,783,023
Total potentially dilutive securities	42,824,922	44,514,864

(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 for the three months ended March 31, 2015 was (2)%, 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, non-deductible expenses arising from stock-based compensation and the tax effects of unrealized gains in investment securities.

Our effective tax rate for the three months ended March 31, 2014 was (3)%, which was lower than the federal statutory tax rate of 34%. The lower tax rate was primarily attributable to our loss from operations, the foreign tax rate differential, and non-deductible expenses arising from stock-based compensation, partially offset by state income taxes.

We are subject to taxation in the United States and foreign jurisdictions. As of March 31, 2015, our tax years 2005 to 2014 remain subject to examination in most jurisdictions. We are currently protesting the results of the examination by the U.S. Internal Revenue Service for the June 30, 2011 and December 31, 2011 tax years.

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

Leases

We lease facilities for data center capacity and office space under non-cancelable operating lease agreements with various expiration dates. There have been no material changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

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 as discussed below and for those matters for which we have recorded a loss contingency. We accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss.

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

On February 6, 2014, Hewlett-Packard Company filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that some of our services infringe the claims of eight of Hewlett-Packard's patents. Hewlett-Packard is seeking unspecified damages and an injunction. The court held case management conferences on June 26, 2014, September 4, 2014 and February 5, 2015. The parties are currently conducting discovery. Hewlett-Packard served infringement contentions on July 3, 2014 and November 18, 2014. We served invalidity contentions on January 9, 2015. On March 10, 2015, the Court granted our motion for summary judgment, finding that the asserted claims of four of the eight asserted Hewlett-Packard patents are invalid for failing to claim patentable subject matter. A claim construction hearing is scheduled for December 18, 2015. The trial is currently scheduled to begin on May 16, 2016. We have filed petitions for inter partes review of all eight asserted patents with the United States Patent and Trademark Office.

On September 23, 2014, BMC Software, Inc. filed a lawsuit against us in the U.S. District Court for the Eastern District of Texas that alleges that some of our services willfully infringe the claims of seven of BMC’s patents. BMC is seeking unspecified damages and an injunction. A motion to dismiss is currently pending. BMC served infringement contentions on January 6, 2015. We served invalidity contentions on March 3, 2015. A claim construction hearing is scheduled for July 10, 2015. The trial is currently scheduled to begin on March 14, 2016.

We intend to vigorously defend these lawsuits. These litigation matters are still in their early stages and the final outcome, including our liability, if any, with respect to the claims in the lawsuits, is uncertain. If an unfavorable outcome were to occur in either litigation, the impact could be material to our business, financial condition, cash flow or results of operations, depending on the specific circumstances of the outcome. We cannot make a reasonable estimate of the potential loss or range of loss, if any, arising from these matters.

(18) Information about Geographic Areas

Revenues by geographic area, based on the billing location of the customer, were as follows for the periods presented (in thousands):

	Three Months Ended March 31,	
	2015	2014
Revenues by geography:		
North America [1]	$148,646	$94,964
EMEA [2]	48,530	36,306
Asia Pacific and other	14,788	7,820
Total revenues	$211,964	$139,090

Long-lived assets by geographic area were as follows (in thousands):

	March 31, 2015	December 31, 2014
Long-lived assets:		
North America[3]	$74,362	$66,489
EMEA[2]	29,170	27,032
Asia Pacific and other	11,906	10,716
Total long-lived assets	$115,438	$104,237

(1) Revenues attributed to the United States were approximately 94% of North America revenues for the three months ended March 31, 2015 and 2014.
(2) Europe, the Middle East and Africa
(3) Long-lived assets attributed to the United States were approximately 98% and 97% of North America long-lived assets as of March 31, 2015 and December 31, 2014, respectively.

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, 2014 included in the form 10-K dated as of, and filed with the Securities and Exchange Commission, or the SEC, on February 27, 2015 (File No. 001-35580). This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statemen 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.

Overview

ServiceNow is a leading provider of cloud-based solutions that define, structure, manage and automate services across the global enterprise. By applying a service-oriented lens to the activities, tasks and processes that comprise day-to-day work life, we help the modern enterprise operate faster and be more scalable than ever before. We offer our services on an annual subscription fee basis which includes access to the ordered subscription service and related support including updates to the subscribed service during the subscription term. We provide a scaled pricing model based on the duration of the subscription term and we frequently extend discounts to our customers based on the number of users. We generate sales through our direct sales team and indirectly through channel partners and third-party referrals. We also generate revenues from professional services for implementation and training of customer 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 3,047 as of March 31, 2015 from 2,103 as of March 31, 2014.

Key Factors Affecting Our Performance

Renewal rate. We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the annualized contract value, or ACV, from lost customers, divided by the total ACV from all customers that renewed during the period and from all lost customers. A lost customer is a customer that did not renew a contract expiring in the period and that, in our judgment, will not renew. 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. Our renewal rate was 97% for the three months ended March 31, 2015 and 2014.

Upsell rate. To grow our business it is important for us to generate additional sales from existing customers, which we refer to as our upsell rate. We calculate our upsell rate as the ACV of upsells, net of losses during the period, divided by our total ACV signed during the period. The upsell rate was 32% and 45% for the three months ended March 31, 2015 and 2014, respectively. The decrease in upsell rate is primarily due to the increase in total signed ACV resulting from higher renewal ACV during the three months ended March 31, 2015. We expect our upsell rate for 2015 to be lower than upsell rates in 2014 as our renewal base continues to grow.

Our upsells are primarily derived from an increase in the number of seat licenses purchased by our customers and are also derived from the addition of other subscription services. In the first quarter of 2015, we made a change to our customer count definition to better align to a global standard for business identification and tracking. Refer to the "Total customers" paragraph below for further details about the change. The change in customer count definition increased the upsell rate from 34% that we had disclosed in the prior year for the three months ended March 31, 2014 to 45%.

Total customers. We believe our total customer count is a key indicator of our market penetration, growth and future revenues. We have aggressively invested in, and intend to continue to invest in, our direct sales force and additional partnerships with our indirect sales channel. Based on our new definition of customer count as described below, our total customer count was 2,461 and 1,914, as of March 31, 2015 and 2014, respectively. Our growth in total customer count for the three months ended March 31, 2015 was negatively impacted by a decrease in sales productivity due to immaturity in our pipeline of new customer opportunities.

In the three months ended March 31, 2015, we changed our definition of customer count to better align to a global standard for business identification and tracking. Previously, we generally defined a customer as an entity with an active subscription contract as of the measurement date. In situations where a single contract applied to entities with multiple subsidiaries or divisions, universities or governmental organizations, each entity that had contracted for a separate production instance of our services was counted as a separate customer. Beginning on January 1, 2015, a customer is defined as an entity with a unique Dunn & Bradstreet Global Ultimate ("GULT") Data Universal Numbering System ("DUNS") and an active subscription contract as of the measurement date. The DUNS number is a global standard for business identification and tracking. We will 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 US 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 continues to exclude customers of our Express product offering, which is our standardized IT service management solution.

The change in customer count definition reduced our customer count as of March 31, 2014 by 281 customers. As total customer count is a factor used in the calculation of other metrics we disclose (upsell rate, number of customers with ACV greater than $1 million, annual total revenues per customer and average contract term for new customers, upsells and renewals), we have revised previously disclosed numbers for the impacted metrics to ensure comparability across the periods.

Number of customers with ACV greater than $1 million. We count the total number of customers with ACV greater than $1 million as of the end of the period. We had 168 and 96 customers with ACV greater than $1 million as of March 31, 2015 and 2014, respectively.

The number of deals with net new ACV greater than $1 million entered into during the three months ended March 31, 2015 and 2014 were eight and nine, respectively. We define net new ACV as ACV from new customers and upsells to existing customers, net of losses to those customers.

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 2000 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 list is updated annually in the second quarter of the calendar year. Current and prior period G2K customer counts are based on the most recent list for comparability purposes. We adjust the G2K count for acquisitions, spin-offs, and other market activity to ensure the G2K customer count is accurately captured. For example, we add a G2K customer when a G2K company that is not a 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 G2K as a new customer in the G2K customer count. Our G2K customer count based on the most recent Forbes Global 2000 list and adjusted for acquisitions, spin-offs and other market activity was 545 and 452 as of March 31, 2015 and 2014, respectively.

Billings. We define billings as revenue recognized plus the change in total deferred revenue as presented on the consolidated statement of cash flows. We believe billings offers investors useful supplemental information regarding the performance of our business and will help investors better understand the sales volumes and performance of our business.

A calculation of billings is provided below:

	Three Months Ended March 31,		% Change	
	2015	2014		
	(dollars in thousands)			
Billings:				
Total revenues	$211,964	$139,090	52	%
Change in deferred revenue from the consolidated statement of cash flow	55,861	42,172	32	%
Total billings	$267,825	$181,262	48	%

Our international operations provide a significant portion of our total billings and revenues. As a result, the general strengthening of the U.S. Dollar relative to other major foreign currencies (primarily Euro) from the first quarter of 2014 to the first quarter of 2015 had an unfavorable impact on our billings and revenues. For entities reporting in currencies other than the U.S. Dollars, if we had translated our first quarter 2015 results at the first quarter 2014 exchange rate rather than the actual exchange rates in effect during the first quarter of 2015, our total billings would have increased by $19.8 million, with $13.7 million of the increase comprised from an increase in total revenues and $6.1 million of the increase comprised from the change in deferred revenue from the consolidated statement of cash flow.

Average contract term. We calculate the average contract term for new customers, upsells, and renewals based on the term of those contracts entered into during the period weighted by their ACV. The average new customer contract term was 30 months for the three months ended March 31, 2015 and 2014. The average upsell contract term was 23 months and 26 months for the three months ended March 31, 2015 and 2014, respectively. The average renewal contract term was 26 months and 24 months for the three months ended March 31, 2015 and 2014, respectively. In the first quarter 2015, we made a change to our customer count definition to better align to a global standard for business identification and tracking. Refer to the “Total customers” paragraph section above for further details of the change. The change in customer count definition decreased the average new customer contract term from 36 months as disclosed in the prior year to 30 months. Average upsell term and average renewal term were not included in the financial results for the three months ended 2014, therefore the change in customer count definition had no impact to prior year disclosure.

Components of Results of Operations

Revenues

Subscription revenues. Subscription revenues are primarily comprised of fees that give customers access to the ordered subscription service, related support and updates to the subscribed service during the subscription term. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future upgrades, when and if available, offered during the subscription period. 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.

We generate sales directly through our sales team and, to a lesser extent, through our channel partners. Sales to our channel partners are made at a discount and revenues are recorded at the discounted price when all revenue recognition criteria are met. From time to time, our channel partners also provide us referrals for which we pay a referral fee. We pay referral fees to channel partners and other third parties, which typically are 15% of the customer's ACV. The referral fees may vary depending on the level of activity the partner performs in the sales process. We include these fees in sales and marketing expense.

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

Allocation of Overhead Costs

Overhead costs associated with office facilities, IT and certain depreciation related to non-cloud-based infrastructure are allocated to cost of revenues and operating expenses based on headcount. Facility costs associated with our data centers (included as part of data center capacity costs) as well as depreciation related to our cloud-based infrastructure hardware equipment are classified as cost of subscription revenues.

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, depreciation related to our cloud-based infrastructure hardware equipment, amortization of acquired developed technology intangibles, personnel related costs directly associated with our cloud-based infrastructure 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 vendors and allocated overhead.

Professional services associated with the implementation and configuration of our subscription services are performed directly by our services team, as well as by contracted third-party vendors. Fees paid to third-party vendors 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 vendors as a percentage of professional services and other revenues was 20% and 15% in the three months ended March 31, 2015 and 2014, respectively.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel related expenses directly associated with our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation. Sales and marketing expenses also includes third-party referral fees, marketing and promotional events, including our annual Knowledge user conference, online marketing, product marketing and allocated overhead.

Research and Development Expenses

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.

General and Administrative Expenses

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

Provision for Income Taxes

Provision for income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our U.S. deferred tax assets as of March 31, 2015 and December 31, 2014. 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued an update to ASC 606 Revenue from Contracts with Customers, or ASC 606, that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. On April 1, 2015, the FASB proposed a one year deferral of the effective date to December 15, 2017 with early application permitted, but not before the original effective date of December 15, 2016.We are currently evaluating the impact of this update on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, this new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This guidance will become effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. This ASU is not expected to have a significant impact on our financial statements or disclosures.

Results of Operations

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Revenues:		
Subscription	$179,907	$117,375
Professional services and other	32,057	21,715
Total revenues	211,964	139,090
Cost of revenues[1]:		
Subscription	42,444	31,189
Professional services and other	34,455	21,925
Total cost of revenues	76,899	53,114
Gross profit	135,065	85,976
Operating expenses[1]:		
Sales and marketing	110,057	69,416
Research and development	49,848	31,110
General and administrative	29,392	21,631
Total operating expenses	189,297	122,157
Loss from operations	(54,232)	(36,181)
Interest and other expense, net	(2,874)	(5,963)
Loss before provision for income taxes	(57,106)	(42,144)
Provision for income taxes	987	1,167
Net loss	$(58,093)	$(43,311)

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

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cost of revenues:		
Subscription	$5,165	$3,076
Professional services and other	5,213	2,392
Sales and marketing	22,574	9,043
Research and development	15,638	7,839
General and administrative	9,484	6,879

	Three Months Ended March 31,	
	2015	2014
Revenues:		
Subscription	85 %	84 %
Professional services and other	15	16
Total revenues	100	100
Cost of revenues:		
Subscription	20	22
Professional services and other	16	16
Total cost of revenues	36	38
Gross profit	64	62
Operating expenses:		
Sales and marketing	52	50
Research and development	24	22
General and administrative	14	16
Total operating expenses	90	88
Loss from operations	(26)	(26)
Interest and other expense, net	(1)	(4)
Loss before provision for income taxes	(27)	(30)
Provision for income taxes	—	1
Net loss	(27)%	(31)%

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Revenues by geography		
North America	$148,646	$94,964
EMEA (1)	48,530	36,306
Asia Pacific and other	14,788	7,820
Total revenues	$211,964	$139,090

(1) Europe, the Middle East and Africa

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Comparison of the three months ended March 31, 2015 and 2014

Revenues

	Three Months Ended March 31,		% Change
	2015	2014	
	(dollars in thousands)		
Revenues:			
Subscription	$179,907	$117,375	53 %
Professional services and other	32,057	21,715	48 %
Total revenues	$211,964	$139,090	52 %
Percentage of revenues:			
Subscription	85 %	84 %	
Professional services and other	15 %	16 %	
Total	100 %	100 %	

Subscription revenues increased $62.5 million during the three months ended March 31, 2015, compared to the same period in the prior year, driven by our upsells, renewals and an increase in our customer count. Revenues from our direct sales organization and channel partners represented 88% and 12%, respectively, for the three months ended March 31, 2015 and 2014.

Professional services and other revenues increased $10.3 million during the three months ended March 31, 2015, compared to the same period in the prior year, due to an increase in the services provided to our growing customer base. We expect professional services and other revenues to increase at a slower rate than subscription revenues as we continue to focus on strengthening and supporting our network of professional services partners.

Our annual total revenues per customer increased to approximately $345,000 for the three months ended March 31, 2015, compared to approximately $284,000 for the three months ended March 31, 2014. Our annual total revenues per customer is the sum of average quarterly revenues per customer for the trailing four quarters. We calculate average quarterly revenues per customer by dividing the quarter’s revenues by the average number of customers in the quarter. In the second quarter of 2014, we made a change to our calculation to improve the accuracy of our average revenues per customer. In this report, we have applied this updated calculation combined with our revised customer count definition, and have presented current and past metrics on this consistent basis. As a result, our annual total revenues per customer for the three months ended March 31, 2014 increased by 18% compared to prior year's disclosure.

Our international operations have provided and will continue to provide a significant portion of our total revenues. As a result, the general strengthening of the U.S. Dollar relative to other major foreign currencies (primarily Euro) from the first quarter of 2014 to the first quarter of 2015 had an unfavorable impact on our revenues. For entities reporting in currencies other than the U.S. Dollars, if we had translated our first quarter 2015 results at the first quarter 2014 exchange rate rather than the actual exchange rates in effect during the first quarter 2015, our subscription revenues would have increased by $11.0 million and our professional services and other revenues would have increased by $2.7 million.

Cost of Revenues and Gross Profit Percentage

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$42,444	$31,189	36 %
Professional services and other	34,455	21,925	57 %
Total cost of revenues	$76,899	$53,114	45 %
Gross profit percentage:			
Subscription	76 %	73 %	
Professional services and other	(7)%	(1)%	
Total gross profit percentage	64 %	62 %	
Gross Profit	$135,065	$85,976	
Headcount (at period end)			
Subscription	491	381	29 %
Professional services and other	445	337	32 %
Total headcount	936	718	30 %

Cost of subscription revenues increased $11.3 million during the three months ended March 31, 2015, compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $2.9 million in personnel related costs excluding stock-based compensation, an increase of $2.1 million in stock-based compensation, an increase of $1.8 million in depreciation expense primarily due to purchases of cloud-based infrastructure hardware equipment for our data centers and an increase of $1.3 million in overhead expenses. Amortization of intangible assets increased $2.4 million as a result of the acquisition of Neebula Systems Ltd., or Neebula, in July 2014.

Our subscription gross profit percentage was 76% and 73% for the three months ended March 31, 2015 and 2014, respectively. We expect our cost of subscription revenues to increase in absolute dollar terms as we provide subscription services to more customers and increase the number of users within our customer instances. We expect our subscription gross profit percentage to remain relatively flat for the remainder of the year as we anticipate our cost of subscription revenues to grow at the same rate as our subscription revenues. To the extent future acquisitions are consummated, our cost of subscription revenues may increase due to additional non-cash charges associated with the amortization of intangible assets acquired. Our forecast for revenues, cost of revenues, and operating expenses was based on foreign exchange rates as of March 31, 2015.

Cost of professional services and other revenues increased $12.5 million during the three months ended March 31, 2015 as compared to the same period in the prior year, primarily due to increased headcount resulting in an increase of $4.4 million in personnel related costs excluding stock-based compensation, an increase of $2.8 million in stock-based compensation, an increase of $3.4 million in contracted third-party vendor costs and any increase of $1.6 million in overhead expenses.

Our professional services and other gross profit percentage was (7)% and (1)% during the three months ended March 31, 2015 and 2014, respectively. The decrease in profit margin is primarily due to the higher growth rate in stock-based compensation of 118% compared to the growth rate in professional services and other revenues of 48%. In the three months ended June 30, 2015, we expect to recognize $10.8 million in revenues from Knowledge, our annual user conference, with all expenses recorded in sales and marketing. Excluding the revenues from Knowledge, we expect our professional services and other gross profit percentage to increase for the remainder of the year due to an anticipated increase in professional services and training revenues.

The general strengthening of the U.S. Dollar relative to other major foreign currencies from the first quarter of 2014 to the first quarter of 2015 had an impact on our cost of revenues. For entities reporting in currencies other than the U.S. Dollars, if we had translated our first quarter 2015 results at the first quarter 2014 exchange rate rather than the actual exchange rates in effect during the first quarter of 2015, our cost of subscription revenues would have increased by $1.8 million and our cost of professional services and other revenues would have increased by $1.9 million.

Sales and Marketing

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Sales and marketing	$110,057	$69,416	59 %
Percentage of revenues	52 %	50 %	
Headcount (at period end)	1,105	730	51 %

Sales and marketing expenses increased $40.6 million during the three months ended March 31, 2015 compared to the same period in the prior year, primarily due to increased headcount that resulted in an increase of $15.0 million in personnel related costs excluding stock-based compensation, an increase of $13.5 million in stock-based compensation, an increase of $4.6 million in overhead expenses and an increase of $4.4 million in commissions expense. Commissions increased primarily due to an increase in bookings. Commissions and referral fees amounted to 10% and 11% of subscription revenues for three months ended March 31, 2015 and 2014, respectively. Marketing program expenses, which include events, advertising and market data, increased $2.7 million during the three months ended March 31, 2015 compared to the same period in the prior year.

The general strengthening of the U.S. Dollar relative to other major foreign currencies from the first quarter of 2014 to the first quarter of 2015 had an impact on our sales and marketing expenses. For entities reporting in currencies other than the U.S. Dollars, if we had translated our first quarter 2015 results at the first quarter 2014 exchange rate rather than the actual exchange rates in effect during the first quarter of 2015, our sales and marketing expenses would have increased by $4.5 million.

In the second quarter of 2015, we expect to incur sales and marketing expenses of approximately $23.1 million related to Knowledge. Excluding the charges related to Knowledge, we expect sales and marketing expenses to increase for the remainder of the year, in absolute dollar terms, but to decrease as a percentage of total revenues as we continue to expand our direct sales force, increase our marketing activities, grow our international operations, build brand awareness and sponsor additional marketing events.

Research and Development

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Research and development	$49,848	$31,110	60 %
Percentage of revenues	24 %	22 %	
Headcount (at period end)	649	410	58 %

Research and development expenses increased $18.7 million during the three months ended March 31, 2015 compared to the same period in the prior year, primarily due to increased headcount, which resulted in an increase of $7.9 million in personnel related costs excluding stock-based compensation, an increase of $7.8 million in stock-based compensation and an increase of $3.2 million in overhead expenses. The impact from the foreign currency movements from the first quarter of 2014 to the first quarter of 2015 is not significant to research and development expenses.

We expect research and development expenses to increase for the remainder of the year in absolute dollar terms, but remain flat as a percentage of total revenues, as we continue to expand the development organization and improve the existing functionality of our services, develop new applications to fill market needs and continue to enhance our core platform.

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General and Administrative

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
General and administrative	$29,392	$21,631	36 %
Percentage of revenues	14 %	16 %	
Headcount (at period end)	357	245	46 %

General and administrative expenses increased $7.8 million during the three months ended March 31, 2015 compared to the same period in the prior year, primarily due to increased headcount which resulted in an increase of $1.2 million in personnel related costs excluding stock-based compensation, an increase of $2.6 million in stock-based compensation and an increase of $0.5 million in overhead expenses. Outside services costs increased $3.0 million primarily due to an increase in legal fees and an increase in contractors for internal information technology support. The impact from the foreign currency movements from the first quarter of 2014 to the first quarter of 2015 is not significant to general and administrative expenses.

We expect general and administrative expenses to increase for the remainder of the year in absolute dollar terms, but to remain relatively flat as a percentage of total revenues.

Stock-based Compensation

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Cost of revenues:			
Subscription	$5,165	$3,076	68 %
Professional services and other	5,213	2,392	118 %
Sales and marketing	22,574	9,043	150 %
Research and development	15,638	7,839	99 %
General and administrative	9,484	6,879	38 %
Total stock-based compensation	$58,074	$29,229	99 %
Percentage of revenues	27 %	21 %	

Stock-based compensation increased $28.8 million during the three months ended March 31, 2015, compared to the same period in prior year, primarily due to annual grants of equity incentive awards, increased headcount, an increase in the weighted-average grant date fair value of stock awards and performance RSUs granted to our executives in the current year. The new equity incentive awards granted after the same period in prior year, including the performance RSUs, resulted in an increase of $28.3 million in stock-based compensation. The weighted-average grant date fair value per share of stock options granted was $34.37 and $31.72 for the three months ended March 31, 2015 and 2014, respectively. The weighted-average grant date fair value per restricted stock unit was $72.33 and $65.48 for the three months ended March 31, 2015 and 2014, respectively.

Stock-based compensation is inherently difficult to forecast due to fluctuations in our stock price and the uncertainty around the achievement of performance criteria associated with our performance RSUs. We expect stock-based compensation to continue to increase for the remainder of the year in absolute dollar terms and as a percentage of total revenues.

We expect to continue to incur a GAAP loss for the remainder of the year, due to increased costs such as non-cash charges associated with equity awards and business combinations and other expenses.

Interest and Other Expense, net

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Interest expense related to the Notes	$(7,578)	$(7,081)	7%
Interest income	948	663	43%
Foreign currency exchange gain	3,826	451	748%
Other	(70)	4	(1,850)%
Interest and other expense, net	$(2,874)	$(5,963)	(52)%
Percentage of revenues	(1)%	(4)%	

Interest and other expense, net, decreased $3.1 million during the three months ended March 31, 2015 compared to the same period in the prior year, primarily due to a gain from foreign currency transactions. We had a foreign currency transaction gain of $3.8 million for the three months ended March 31, 2015 compared to a gain of $0.5 million for the three months ended March 31, 2014, primarily due to the strengthening of the U.S. Dollar against other major currencies.

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

Provision for Income Taxes

	Three Months Ended March 31, 2015	2014	% Change
	(dollars in thousands)		
Loss before income taxes	$(57,106)	$(42,144)	36%
Provision for income taxes	987	1,167	(15)%
Effective tax rate	(2)%	(3)%	

Our effective tax rate changed to (2)% for the three months ended March 31, 2015 compared to (3)% for the three months ended March 31, 2014 due to loss from operations, the foreign tax rate differential and the tax effects of unrealized gains from investment securities.

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

Liquidity and Capital Resources

Three Months Ended March 31,

	2015	2014
	(dollars in thousands)	
Net cash provided by operating activities	$67,366	$24,217
Net cash used in investing activities	(34,334)	(75,683)
Net cash provided by financing activities	29,739	23,154
Net increase (decrease) in cash and cash equivalents, net of foreign currency effect on cash and cash equivalents	55,526	(28,383)

Our principal sources of liquidity are our cash and cash equivalents, investments, and cash generated from operations. As of March 31, 2015, we had $745.0 million in cash and cash equivalents and short-term investments, of which $97.6 million represented cash located outside the United States. In addition, we had $253.6 million in long-term investments which provide additional capital resources.

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

Operating Activities

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

Net cash provided by operating activities was $67.4 million for the three months ended March 31, 2015 compared to $24.2 million for the three months ended March 31, 2014. The increase in operating cash flow was primarily due to increase in non-cash adjustments to reconcile net loss to net cash provided by operations and the favorable impact on operating cash flow from changes in operating assets and liabilities. Net cash flow from the aggregate of changes in accounts receivable, deferred commissions and deferred revenue increased by $22.0 million due to increased sales for the three months ended March 31, 2015.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2015 was $34.3 million compared to $75.7 million for the three months ended March 31, 2014. The decrease in cash used in investing activities was mainly due to decrease in the net purchases of investments of $58.1 million and offset by an increase in capital expenditures of $15.7 million related to the purchase of cloud-based infrastructure hardware equipment to support the expansion of our data centers as well as investments in leasehold improvements, furniture and equipment to support our headcount growth.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2015 was $29.7 million compared to $23.2 million for the three months ended March 31, 2014. The increase in cash provided by financing activities was primarily due to the $6.5 million increase in proceeds from employee stock plans.

Contractual Obligations and Commitments

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding. There have been no material changes in our commitments under contractual obligations, as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Significant Judgments and Estimates

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

There have been no significant changes to our critical accounting policies and estimates as described in our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on February 27, 2015.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk as compared to the disclosures in Part II, Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II

ITEM 1. LEGAL PROCEEDINGS

On February 6, 2014, Hewlett-Packard Company filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that some of our services infringe the claims of eight of Hewlett-Packard's patents. Hewlett-Packard is seeking unspecified damages and an injunction. We filed an answer to the complaint on March 28, 2014 denying the allegations and asserting various affirmative defenses. The court held case management conferences on June 26, 2014, September 4, 2014 and February 5, 2015. The parties are currently conducting discovery. Hewlett-Packard served infringement contentions on July 3, 2014 and November 18, 2014. We served invalidity contentions on January 9, 2015. On March 10, 2015, the Court granted our motion for summary judgment, finding that the asserted claims of four of the eight asserted Hewlett-Packard patents are invalid for failing to claim patentable subject matter. A claim construction hearing is scheduled for December 18, 2015. The trial is currently scheduled to begin on May 16, 2016. We have filed petitions for inter partes review of all eight asserted patents with the United States Patent and Trademark Office.

On September 23, 2014, BMC Software, Inc. filed a lawsuit against us in the U.S. District Court for the Eastern District of Texas that alleges that some of our services willfully infringe the claims of seven of BMC’s patents. BMC is seeking unspecified damages and an injunction. A motion to dismiss is currently pending. BMC served infringement contentions on January 6, 2015. We served invalidity contentions on March 3, 2015. A claim construction hearing is scheduled for July 10, 2015. The trial is currently scheduled to begin on March 14, 2016.

We intend to vigorously defend these lawsuits. These litigation matters are still in their early stages and the final outcome, including our liability, if any, with respect to the claims in the lawsuits, is uncertain. If an unfavorable outcome were to occur in either litigation, the impact could be material to our business, financial condition, cash flows or results of operations, depending on the specific circumstances of the outcome.

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Other than as described above, we are not presently a party to any legal proceedings that, if determined adversely to us, we believe would individually or taken together have a material adverse effect on our business, financial condition, cash flows or results of operations.

ITEM 1A. RISK FACTORS

We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations and future prospects. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and related notes.

Risks Related to Our Business and Industry

We expect our revenue growth rate to decline, but we may not accurately predict the rate or magnitude of such decline. Our capacity is largely driven by production factors such as facilities, data centers and a trained workforce that require long term investments and expense commitments that we cannot easily adjust in the short term. As our costs increase, we may not be able to generate sufficient revenue to generate or sustain profitability or positive cash flow from operations.

From the three months ended March 31, 2009 to the three months ended March 31, 2015, our revenues grew from \$5.2 million to \$212.0 million. We expect that our revenue growth rate will continue to decline into the foreseeable future. We also expect our costs to increase in future periods as we continue to invest in our capacity to support anticipated growth. These investments may not result in increased revenues or growth in our business. Even if our revenue continues to increase, we expect to continue to incur a generally accepted accounting principles (GAAP) loss during future periods due to increased costs such as non-cash charges associated with equity awards and business combinations and other expenses. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in increased costs. As a result, we may not be able to achieve or maintain profitability and we may be unable to generate positive cash flow from operations. If we fail to grow our revenues sufficiently to keep pace with our growing investments and other expenses, our operating results will be harmed.

Our quarterly results may fluctuate, and if we fail to meet the expectations of analysts or investors or our previously issued financial guidance, or if any forward-looking financial guidance we give does not meet the expectation of analysts or investors, our stock price could decline substantially.

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our stock, or we fail to meet or exceed any forward-looking financial guidance we have issued, or if any forward-looking financial guidance we give is below the expectations of investors or any securities analysts who follow our stock, the price of our common stock could decline substantially. Some of the important factors that may cause our revenues, operating results and cash flows to fluctuate from quarter to quarter, or which could impact any forward-looking financial guidance we give for any period, include:

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

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our operating results to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows are not meaningful and should not be relied upon as an indication of future performance.

We face cyber-security risks, including but not limited to, unauthorized use or disclosure of customer data, theft of proprietary information, denial of service attacks, loss or corruption of customer data, and computer hacking attacks. If any of these risks occur, our reputation may be harmed, our services may be perceived as not secure, we may lose prospective customers, existing customers may curtail or stop using our services, our ability to operate our business may be impaired, and we may incur significant liabilities.

Our operations involve the storage, transmission and processing of our customers' confidential, proprietary and sensitive information including in some cases personally identifiable information, protected health information, proprietary intellectual property and credit card and other sensitive financial information. We do not control or monitor the information that customers process in our services, we are unaware of the type, sensitivity and value of the customer information processed in our services and we do not vary our service offering and security measures due to the content of customer data. We have legal and contractual obligations to protect the confidentiality and appropriate use of customer data. Cyber-security risks, including but not limited to, unauthorized use or disclosure of customer data, theft of proprietary information, denial of service attacks, loss or corruption of customer data, and computer hacking attacks could expose us to substantial litigation expenses and damages, indemnity and other contractual obligations, government fines and penalties, mitigation expenses and other liability. Additionally, unauthorized persons may obtain access to our own sensitive, proprietary or confidential information or systems including our intellectual property and other confidential business information and our information technology systems. Such access could be used to compromise our competitive position, our ability to deliver our services or our ability to manage and operate our business. The security measures protecting our customers' and our own information and systems could be breached as a result of third party action, employee error or employee misconduct. Because techniques used to obtain unauthorized access to or sabotage systems change frequently and generally are not recognized until successfully launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, we could suffer severe reputational damage adversely affecting customer or investor confidence, the market perception of the effectiveness of our security measures could be harmed, we could lose potential sales and existing customers, our ability to operate our business may be impaired, we may be subject to litigation or regulatory investigations or orders, and we may incur significant liabilities. We do not have insurance sufficient to compensate us for the potentially significant losses that may result from security breaches.

We face exposure to foreign currency exchange rate fluctuations.

We conduct significant transactions, including revenue transactions and intercompany transactions, in currencies other than the U.S. Dollar or the functional operating currency of the transactional entities. In addition, our international subsidiaries maintain significant net assets that are denominated in currencies other than the functional operating currencies of these entities. Accordingly, changes in the value of currencies relative to the U.S. Dollar can affect our consolidated revenues and operating results due to transactional and translational remeasurement that is reflected in our earnings. For example, the U.S. Dollar has recently begun to strengthen relative to the Euro and other currencies. This has, and if this trend continues, it will continue to have a negative impact on our consolidated revenues. It is particularly difficult to forecast any impact from exchange rate movements, so there is risk that unanticipated currency fluctuations could adversely affect our results or cause our results to differ from investor expectations or our own guidance in any future periods.

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

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

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

We depend on our senior management team and if we lose key employees or are unable to attract and retain the employees we need to support our operations and growth, our business could be harmed.

Our success depends largely upon the continued services of our management team and many key individual contributors. From time to time, there may be changes in our management team resulting from the hiring or departure of employees, which could disrupt our business. Our employees are generally employed on an at-will basis, which means that our employees could terminate their employment with us at any time. The loss of one or more members of our management team or other key employees could have a serious impact on our business. In the technology industry, there is substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related solutions, as well as competition for sales executives and operations personnel. We may not be successful in attracting and retaining qualified personnel. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. In particular, competition for experienced software and cloud-based infrastructure engineers in the San Francisco Bay area, San Diego, Seattle, London and Amsterdam, our primary operating locations, is intense. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be harmed.

If we are not able to enhance our existing service, develop new applications and promote our services for the development of custom applications, our business and operating results could be harmed.

Our ability to attract new customers and increase revenues from existing customers depends on our ability to enhance our services and provide it in a way that is broadly accepted. In particular, we need to continuously modify and enhance our services to keep pace with changes in user expectations, including increased demand for intuitive and attractive user interfaces, Internet software practices, and communication, database, hardware and security technologies. In addition, we must effectively make our services available in additional ways, including on mobile devices. If we are unable to respond in a timely and cost-effective manner to these rapid developments, our services may become less marketable and less competitive or obsolete. Our success also depends on our ability to develop new applications and promote our services for the development of custom applications. We derive a substantial majority of our revenue from subscriptions to our suite of applications for use within IT, and we expect this will continue for the foreseeable future. We are expanding the breadth of our services to include offerings for service domains outside of IT and offerings for small and medium-sized businesses. The success of any enhancement or new application, and the success of our efforts to promote the use of our services for development of custom applications, depends on several factors, including timely completion, adequate quality testing, introduction and market acceptance. Any new service that we develop may not be introduced in a timely or cost-effective manner, may not be priced appropriately, and may not achieve the broad market acceptance necessary to generate significant revenues. For instance, from time to time we have changed the way that we price and package our services, and we anticipate that we will continue to make periodic adjustments to our pricing and packaging in the future, and prospective or existing customers may not accept any new pricing or services packaging we have adopted or may adopt in the future. In addition, sales of new services may erode sales of our existing similar services. If we are unable to enhance our existing service, successfully develop new applications or promote the use of our services for the development of custom applications, our business and operating results could be harmed.

We may not timely and effectively scale and adapt our technology to meet our customers’ performance and other requirements.

Our future growth is dependent upon our ability to continue to meet the expanding needs of our customers as their use of our services grows. We expect the number of users and transactions we manage, the amount of data we transfer, process and store, the number of locations from which our services are being accessed, and the number of processes and systems we manage to continue to grow. In the past, a few of our largest customers experienced reduced levels of availability, performance and functionality due to the scale at which they implemented our services. In order to meet the performance and other requirements of our customers, we intend to continue making significant investments to develop and implement new technologies in our services and cloud-based infrastructure operations. These technologies, which include databases, applications and server optimizations, network and hosting strategies, and automation, are often advanced, complex, new and untested. We may not be successful in developing or implementing these technologies. In addition, it takes a significant amount of time to plan, develop and test improvements to our technologies and infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. We are also dependent upon open source and other third-party technologies and may be unable to quickly effect changes to such technologies, which may prevent us from rapidly responding to evolving customer requirements. To the extent that we do not effectively scale our services and operations to meet the growing needs of our customers, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our services, we may be unable to compete effectively and our business and operating results may be harmed.

The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The markets in which we compete to manage services across the enterprise are fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry. As the market for service management matures, we expect competition to intensify. We face competition from in-house solutions, large integrated systems vendors, and established and emerging cloud and software vendors. Our competitors vary in size and in the breadth and scope of the products and services offered. Many of our competitors and potential competitors are larger, have greater name recognition, longer operating histories, more established customer relationships, larger marketing budgets and greater resources than we do. Our primary competitors include BMC Software, Inc., CA, Inc., Hewlett-Packard Company, International Business Machines Corporation and Salesforce.com, Inc. Further, other potential competitors not currently offering competitive products may expand their services to compete with our services. As we expand the breadth of our services to include offerings for service domains outside of IT, and offerings for small and medium sized businesses, we expect increasing competition from platform vendors including Salesforce.com, Inc. and from application development vendors focused on these other markets. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards and customer requirements. An existing competitor or new entrant could introduce new technology that reduces demand for our services. In addition to product and technology competition, we face pricing competition. Some of our competitors offer their products or services at a lower price, which has resulted in pricing pressures. Some of our larger competitors have the operating flexibility to bundle competing products and services with other software offerings, including offering them at a lower price as part of a larger sale. For all of these reasons, we may not be able to compete successfully and competition could result in reduced sales, reduced margins, losses or the failure of our services to achieve or maintain market acceptance, any of which could harm our business.

We may acquire or invest in companies, which may divert our management's attention, and result in additional dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions or investments.

We have acquired companies in the past and may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products and other assets in the future. We also may enter into relationships with other businesses to expand our service offerings or our ability to provide services in international locations, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing or investments in other companies. An acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their technology is not easily adapted to work with ours, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to conditions or approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse technologies, software or business cultures; and

- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

Acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown risks or liabilities. For example, in July 2014 we completed the acquisition of a privately-held company based in Israel, Neebula Systems Ltd., or Neebula. To succeed with this acquisition, we need to successfully retain Neebula's key personnel and implement Neebula's technology on the ServiceNow platform. We may experience difficulties in this integration due to differences in operations, technology and culture between ServiceNow and Neebula, and other challenges associated with operating a business in a geography in which we did not previously have substantial engineering operations and which is currently involved in regional conflicts.

If the market for our technology delivery model develops more slowly than we expect, our growth may slow or stall, and our operating results would be harmed.

Use of cloud-based applications to automate and manage service relationships is at an early stage. We do not know whether the trend of adoption of enterprise cloud-based solutions we have experienced in the past will continue in the future. In particular, many organizations have invested substantial personnel and financial resources to integrate legacy software into their businesses over time, and some have been reluctant or unwilling to migrate to cloud-based solutions. Furthermore, some organizations, particularly large enterprises upon which we are dependent, have been reluctant or unwilling to use cloud-based solutions because they have concerns regarding the risks associated with the security of their data, the physical location of data centers in which their data is stored and processed, and the reliability of the technology delivery model associated with these solutions. It is possible that various governmental jurisdictions around the world in which we compete will adopt laws regarding access to, the processing of, or the location of storage of, data that prevents or imposes prohibitively expensive hurdles for us to provide our cloud-based solutions to enterprises within such jurisdictions. In addition, if either we or other cloud-based providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for cloud-based solutions as a whole, including our services, will be negatively impacted. If the adoption of cloud-based solutions does not continue, the market for these solutions may stop developing or may develop more slowly than we expect, either of which would harm our operating results.

Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our services.

Increasing our customer base and achieving broader market acceptance of our services will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities. We are substantially dependent on our direct sales force to obtain new customers. From March 31, 2014 to March 31, 2015, our sales and marketing organization increased from 730 to 1,105 employees. We plan to continue to expand our direct sales force both domestically and internationally. There is significant competition for direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant revenue growth in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel and we may be unable to hire or retain sufficient numbers of qualified individuals. Further, new hires require significant training and time before they achieve full productivity, particularly in new sales territories and our recent hires and planned hires may not become as productive as quickly as we plan, or at all. Moreover, we do not have significant experience as an organization developing and implementing overseas sales and marketing campaigns, and such campaigns may be expensive and difficult to implement, and we may be unable to attract and retain qualified personnel to conduct such campaigns. Our business will be harmed if our expansion efforts do not generate a significant increase in revenues.

Our growth depends in part on the success of our strategic relationships with third parties and their continued performance.

We depend on various third parties, such as implementation partners, systems integrators, managed services providers and sales partners in order to grow our business. Our sales efforts have focused on large enterprise customers and there are a limited number of partners with the capacity to provide these customers a significant level of services. In order to continue our growth, we need to recruit these partners and these partners need to devote substantial resources to our solutions. Accordingly, we need to build services, implement partner programs, and provide training and other resources to recruit, retain and enable these partners. Our agreements with partners are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing solutions. Our competitors may be effective in providing incentives to our partners to favor their solutions or otherwise disrupt the relationships we have with our partners. In addition, global economic conditions could harm the businesses of our partners, and it is possible that they may not be able to devote the additional resources we expect to the relationship. If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results would suffer. As we expand the breadth of our services to include offerings for service domains outside of IT, and offerings for small and medium sized businesses, we may need to establish relationships with additional sales and implementation partners. Further, reliance on third parties exposes us to risk of poor performance and failed customer expectations. If a customer is not satisfied with the quality of work performed by a third party, we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer’s dissatisfaction could damage our reputation or ability to obtain additional revenues from that customer or prospective customers.

Our business depends substantially on our existing customers purchasing additional subscriptions from us, and renewing their subscriptions upon expiration of the subscription term. Any decline in customer additional purchases or renewals would harm our operating results.

In order for us to maintain or improve our operating results, it is important that our existing customers expand their use of our service by adding new users and new applications of our service across the enterprise, and renew their subscriptions upon expiration of the subscription contract term. Our customers have no obligation to renew their subscriptions, and our customers may not renew subscriptions with a similar contract period or with the same or a greater number of users. Although our renewal rates have historically been high, some of our customers have elected not to renew their agreements with us and we cannot accurately predict renewal rates. Moreover, in some cases, some of our customers have the right to cancel their agreements prior to the expiration of the term. Our renewal rates may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our subscription service, professional services, customer support, or prices, the prices of competing solutions, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers’ spending levels. Our growth also depends in part on our ability to sell more subscriptions and additional professional services to our current customers. If our customers do not renew their subscriptions, renew on less favorable terms or fail to add more authorized users or fail to purchase additional professional services, our revenues may decline, and our operating results would be harmed.

Because our sales efforts are targeted at large enterprise customers, we face longer sales cycles, substantial upfront pre-sales costs and less predictability in completing some of our sales. If our sales cycle lengthens, or if our sales investments do not result in sufficient sales, our operating results could be harmed.

We target our sales efforts at large enterprise customers. Because these customers are often making an enterprise-wide decision to deploy our services, sometimes on a global basis, we face long sales cycles, complex customer requirements, substantial upfront pre-sales costs and less predictability in completing some of our sales. Our sales cycle is generally six to nine months, but is variable and difficult to predict and can be much longer. For example, our sales productivity was negatively impacted due to immaturity in our pipeline of new customer and upsell opportunities for the quarter ended March 31, 2015. Furthermore, large enterprises often undertake a prolonged evaluation of our services, including whether they need professional services performed by us or a third party for their service management needs, and a comparison of our services to products offered by our competitors. Some of our large enterprise customers initially deploy our services on a limited basis, with no guarantee that these customers will deploy our services widely enough across their organization to justify our substantial pre-sales investment. If our sales cycle lengthens or our substantial upfront pre-sales investments do not result in sufficient subscription revenues to justify our investments, our operating results could be harmed.

We may be unable to develop or obtain intellectual property that provides us with a competitive advantage or prevent third parties from infringing upon or misappropriating our intellectual property. Defending our intellectual property may result in substantial expenses that harm our operating results.

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

We have been, and may in the future be, sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends in part on not infringing upon the intellectual property rights of others. We may be unaware of the intellectual property rights of others that may cover some or all of our technology or services. From time to time, our competitors or other third parties may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights.

For example, on February 6, 2014, Hewlett-Packard Company filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that some of our services infringe the claims of eight of Hewlett-Packard's patents. Hewlett-Packard is seeking unspecified damages and an injunction. We filed an answer to the complaint on March 28, 2014 denying the allegations and asserting various affirmative defenses. The court held case management conferences on June 26, 2014, September 4, 2014 and February 5, 2015. The parties are currently conducting discovery. Hewlett-Packard served infringement contentions on July 3, 2014 and November 18, 2014. We served invalidity contentions on January 9, 2015. On March 10, 2015, the Court granted our motion for summary judgment, finding that the asserted claims of four of the eight asserted Hewlett-Packard patents are invalid for failing to claim patentable subject matter. A claim construction hearing is scheduled for June 12, 2015. The trial is currently scheduled to begin on May 16, 2016. We have filed petitions for inter partes review of all eight asserted patents with the United States Patent and Trademark Office.

On September 23, 2014, BMC Software, Inc. filed a lawsuit against us in the U.S. District Court for the Eastern District of Texas that alleges that some of our services willfully infringe the claims of seven of BMC’s patents. BMC is seeking unspecified damages and an injunction. A motion to dismiss is currently pending. BMC served infringement contentions on January 6, 2015. We served invalidity contentions on March 3, 2015. A claim construction hearing is scheduled for July 10, 2015. The trial is currently scheduled to begin on March 14, 2016.

We intend to vigorously defend these lawsuits. These litigation matters are still in their early stages and the final outcome, including our liability, if any, with respect to the claims in the lawsuits, is uncertain. If an unfavorable outcome were to occur in either litigation, the impact could be material to our business, financial condition, cash flow or results of operations, depending on the specific circumstances of the outcome.

Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses, modify our services or refund fees. Such disputes could also cause an adverse impact to our customer satisfaction and related renewal rates and could cause us to lose potential sales. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations and harm our operating results.

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

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

We need to continue to invest in the growth of our worldwide operations by opening new geographic markets. If our required investments in these markets are greater than anticipated, or if our customer growth in these markets does not meet our expectations, our financial results will be negatively impacted.

We are continuing to expand worldwide and have recently significantly expanded our presence in Brazil and Asia. We have made and will continue to make substantial investments as we enter these and other new geographic markets. These include investments in data centers and cloud-based infrastructure, sales, marketing and administrative personnel and facilities. Often we must make these investments when it is still unclear whether future sales in the new market will justify the investments. In addition, these investments may be more expensive than we initially anticipate. If our required investments are greater than anticipated, or if our customer growth does not meet our expectations, our financial results will be negatively impacted.

Sales to customers outside North America expose us to risks inherent in international sales.

Because we sell our services throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in North America. Sales outside of North America represented 30% of our total revenues for the three months ended March 31, 2015, and we intend to continue to expand our international sales efforts. Our business and future prospects depend on increasing our international sales as a percentage of our total revenues, and the failure to grow internationally will harm our business. The risks and challenges associated with sales to customers outside North America are different in some ways from those associated with sales in North America and we have a limited history addressing those risks and meeting those challenges. Furthermore, the business conduct and ethical standards of many other countries, including the emerging market countries that we are expanding into, are substantially different and much less rigorous than the United States. The risks and challenges inherent with international sales include:

- foreign currency fluctuations which may cause exchange and translation losses;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, competition, privacy and data protection laws and regulations;
- compliance by us and our business partners with international bribery and corruption laws, including the UK Bribery Act and the Foreign Corrupt Practices Act;
- the risk that illegal or unethical activities of our business partners will be attributed to or result in liability to us;
- compliance with regional data privacy laws that apply to the transmission of our customers’ data across international borders, many of which are stricter than the equivalent U.S. laws;
- difficulties in staffing and managing foreign operations;
- different or lesser protection of our intellectual property;
- longer and potentially more complex sales cycles;
- longer accounts receivable payment cycles and other collection difficulties;
- treatment of revenues from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding, income or other taxes in foreign jurisdictions;
- different pricing and distribution environments;
- local business practices and cultural norms that may favor local competitors;
- localization of our services, including translation into foreign languages and associated expenses; and
- regional economic and political conditions.

Any of these factors could negatively impact our business and results of operations.

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

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

Because we recognize revenues from our subscription service over the subscription term, downturns or upturns in new sales and renewals will not be immediately reflected in our operating results.

We generally recognize revenues from customers ratably over the terms of their subscriptions. As a result, most of the revenues we report in each quarter are derived from the recognition of deferred revenues relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter will likely have only a small, and perhaps no apparent, impact on our revenue results for that quarter. Such a decline, however, will negatively affect our revenues in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services, and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenues through additional sales in any period, as revenues from new customers must be recognized over the applicable subscription term. In addition, we may be unable to adjust our cost structure to reflect the changes in revenues.

Unanticipated changes in our effective tax rate could harm our future results.

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of earnings and losses in differing jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions and the valuation of deferred tax assets and liabilities. In addition, changes in federal, state or international tax laws and accounting principles could adversely affect our effective tax rate. For example, many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws or have enacted new laws. Certain proposals or newly enacted laws include provisions that could significantly increase our tax obligations in many countries where we do business. Increases in our effective tax rate would reduce our profitability or in some cases increase our losses.

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

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

The Sarbanes-Oxley Act requires us, among other things, to assess and report on the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In addition, our independent registered public accounting firm is required to audit the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act annually. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. Moreover, our testing, or the subsequent testing by our independent registered public accounting firm, may reveal material weaknesses. If material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated or could subsequently require restatement, we could receive an adverse opinion regarding our internal control over financial reporting from our independent registered public accounting firm, we could be subject to investigations or sanctions by regulatory authorities and we could incur substantial expenses.

Changes in laws, regulations and standards related to the Internet may cause our business to suffer.

Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws and regulations affecting data privacy, the use of the Internet as a commercial medium, and data sovereignty requirements concerning the location of data centers that store and process data. Industry organizations also regularly adopt and advocate for new standards in this area. For instance, we believe increased regulation is likely in the area of data privacy, and changing laws, regulations and standards applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially restricting our ability to store, process and share data with our customers in connection with providing our services. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the Internet, commerce conducted via the Internet or validation that particular processes follow the latest standards. These changes could limit the viability of Internet-based services such as ours. If we are not able to adjust to changing laws, regulations and standards related to the Internet, our business may be harmed.

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

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

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

Our overall performance depends in part on worldwide economic conditions. Global financial developments seemingly unrelated to us or the software industry may harm us. The United States and other key international economies have been impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions, or affect renewal rates, all of which could harm our operating results.

Risks Related to Our 0% Convertible Senior Notes Due 2018 (the "Notes")

Although the Notes are referred to as convertible senior notes, they are effectively subordinated to any of our secured debt and any liabilities of our subsidiaries.

The Notes will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our liabilities that are not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior in right of payment to the Notes will be available to pay obligations on the Notes only after the secured debt has been repaid in full from these assets, and the assets of our subsidiaries will be available to pay obligations on the Notes only after all claims senior to the Notes have been repaid in full. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding. The indenture governing the Notes does not prohibit us from incurring additional senior debt or secured debt, nor does it prohibit any of our current or future subsidiaries from incurring additional liabilities.

As of March 31, 2015, we and our subsidiaries had $451.3 million in consolidated indebtedness, and our subsidiaries had $176.9 million of liabilities (including trade payables but excluding intercompany obligations and liabilities of a type not required to be reflected on a balance sheet of such subsidiaries in accordance with GAAP) to which the Notes would have been structurally subordinated.

Recent and future regulatory actions and other events may adversely affect the trading price and liquidity of the Notes.

We expect that many investors in, and potential purchasers of, the Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the Notes. Investors would typically implement such a strategy by selling short the common stock underlying the Notes and dynamically adjusting their short position while continuing to hold the Notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including our common stock). Such rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a “Limit Up-Limit Down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. Any governmental or regulatory action that restricts the ability of investors in, or potential purchasers of, the Notes to effect short sales of our common stock, borrow our common stock or enter into swaps on our common stock could adversely affect the trading price and the liquidity of the Notes.

We may still incur substantially more debt or take other actions which would diminish our ability to make payments on the Notes when due.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our future debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the Notes that could have the effect of diminishing our ability to make payments on the Notes when due.

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

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted.

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

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

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

In May 2008, FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options (“ASC 470-20”). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders’ equity on our consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we are required to record a greater amount of non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report lower net income (or larger net losses) in our financial results because ASC 470-20 requires interest to include both the amortization of the debt discount and the instrument’s non-convertible coupon interest rate, which could adversely affect our future financial results, the trading price of our common stock and the trading price of the Notes.

Holders of Notes will not be entitled to any rights with respect to our common stock, but they will be subject to all changes made with respect to them to the extent our conversion obligation includes shares of our common stock.

Holders of Notes will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) prior to the conversion date relating to such Notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), but holders of Notes will be subject to all changes affecting our common stock. For example, if an amendment is proposed to our restated certificate of incorporation or restated bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to the conversion date related to a holder's conversion of its Notes (if we have elected to settle the relevant conversion by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if we elect to pay and deliver, as the case may be, a combination of cash and shares of our common stock in respect of the relevant conversion), such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes affecting our common stock.

The conditional conversion feature of the Notes could result in note holders receiving less than the value of our common stock into which the Notes would otherwise be convertible.

Prior to the close of business on the business day immediately preceding July 1, 2018, holders of our Notes may convert their Notes only if specified conditions are met. If the specific conditions for conversion are not met, holders will not be able to convert their Notes, and they may not be able to receive the value of the cash, common stock or a combination of cash and common stock, as applicable, into which their Notes would otherwise be convertible.

Upon conversion of the Notes, note holders may receive less valuable consideration than expected because the value of our common stock may decline after holders exercise their conversion right but before we settle our conversion obligation.

Under the Notes, a converting holder will be exposed to fluctuations in the value of our common stock during the period from the date such holder surrenders Notes for conversion until the date we settle our conversion obligation.

Upon conversion of the Notes, we have the option 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. If we elect to satisfy our conversion obligation in cash or a combination of cash and shares of our common stock, the amount of consideration that a note holder will receive upon conversion of such holder's Notes will be determined by reference to the volume weighted average prices of our common stock for each trading day in a 30 trading-day observation period. This period would be: (i) if the relevant conversion date occurs prior to July 1, 2018, the 30 consecutive trading days beginning on, and including, the second trading day immediately succeeding such conversion date; and (ii) if the relevant conversion date occurs during the period from, and including, July 1, 2018 to the close of business on the second scheduled trading day immediately preceding November 1, 2018, the 30 consecutive trading days beginning on, and including, the 32nd scheduled trading day immediately preceding the maturity date. Accordingly, if the price of our common stock decreases during this period, the amount and/or value of consideration note holders receive will be adversely affected. In addition, if the market price of our common stock at the end of such period is below the average of the daily volume weighted average prices of our common stock during such period, the value of any shares of our common stock that note holders will receive in satisfaction of our conversion obligation will be less than the value used to determine the number of shares that holders will receive.

If we elect to satisfy our conversion obligation solely in shares of our common stock upon conversion of the Notes, we will be required to deliver the shares of our common stock, together with cash for any fractional share, on the third business day following the relevant conversion date (or, for conversions occurring on or after July 1, 2018, on the maturity date). Accordingly, if the price of our common stock decreases during this period, the value of the shares that holders receive will be adversely affected and would be less than the conversion value of the Notes on the conversion date.

The Notes are not protected by restrictive covenants.

The indenture governing the Notes does not contain any financial or operating 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. The indenture contains no covenants or other provisions to afford protection to holders of the Notes in the event of a fundamental change or other corporate transaction involving us except in certain cases described in the indenture connected with fundamental changes, consolidations, mergers or sales of assets.

The increase in the conversion rate for Notes converted in connection with a make-whole fundamental change may not adequately compensate holders of the Notes for any lost value of the Notes as a result of such transaction.

If a make-whole fundamental change occurs prior to maturity, under certain circumstances, we will increase the conversion rate by a number of additional shares of our common stock for Notes converted in connection with such make-whole fundamental change. The increase in the conversion rate will be determined based on the date on which the specified corporate transaction becomes effective and the price paid (or deemed to be paid) per share of our common stock in such transaction. The increase in the conversion rate for Notes converted in connection with a make-whole fundamental change may not adequately compensate holders for any lost value of the Notes as a result of such transaction. In addition, if the price of our common stock in the transaction is greater than $250.00 per share or less than $53.73 per share (in each case, subject to adjustment), no additional shares will be added to the conversion rate. Moreover, in no event will the conversion rate per $1,000 principal amount of Notes as a result of this adjustment exceed 18.6115 shares of common stock, subject to adjustment in the same manner as the conversion rate.

Our obligation to increase the conversion rate for Notes converted in connection with a make-whole fundamental change could be considered a penalty, in which case the enforceability thereof would be subject to general principles of reasonableness and equitable remedies.

The conversion rate of the Notes may not be adjusted for all dilutive events.

The conversion rate of the Notes is subject to adjustment for certain events, including, but not limited to, the issuance of certain stock dividends on our common stock, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers. However, the conversion rate will not be adjusted for other events, such as a third-party tender or exchange offer or an issuance of common stock for cash, that may adversely affect the trading price of the Notes or our common stock. An event that adversely affects the value of the Notes may occur, and that event may not result in an adjustment to the conversion rate.

Provisions in the indenture for the Notes may deter or prevent a business combination that may be favorable to note holders.

If a fundamental change occurs prior to the maturity date of the Notes, holders of the Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes. In addition, if a make-whole fundamental change occurs prior to the maturity date of the Notes, we will in some cases be required to increase the conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change. Furthermore, the indenture for the Notes prohibits us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes and the indenture. These and other provisions in the indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to note holders.

Some significant restructuring transactions may not constitute a fundamental change, in which case we would not be obligated to offer to repurchase the Notes.

Upon the occurrence of a fundamental change, note holders have the right to require us to repurchase all or a portion of the Notes. However, the fundamental change provisions will not afford protection to holders of Notes in the event of other transactions that could adversely affect the Notes. For example, transactions such as leveraged recapitalizations, refinancings, restructurings, or acquisitions initiated by us may not constitute a fundamental change requiring us to offer to repurchase the Notes. In the event of any such transaction, the holders would not have the right to require us to repurchase the Notes, even though each of these transactions could increase the amount of our indebtedness, or otherwise adversely affect our capital structure or any credit ratings, thereby adversely affecting the holders of Notes.

In addition, absent the occurrence of a fundamental change or a make-whole fundamental change, changes in the composition of our board of directors will not provide holders with the right to require us to repurchase the Notes or to an increase in the conversion rate upon conversion.

We have not registered the Notes or the common stock issuable upon conversion of the Notes, if any, which will limit the ability of note holders to resell them.

The Notes and the shares of common stock issuable upon conversion of the Notes, if any, have not been registered under the Securities Act of 1933, as amended, or the Securities Act, or any state securities laws. Unless the Notes and any shares of common stock issuable upon conversion of the Notes have been registered, they may not be transferred or resold except in a transaction exempt from or not subject to the registration requirements of the Securities Act and applicable state securities laws. We do not intend to file a registration statement for the resale of the Notes and the common stock, if any, into which the Notes are convertible.

We cannot guarantee an active trading market for the Notes.

We have not listed and do not intend to apply to list the Notes on any securities exchange or to arrange for quotation on any automated dealer quotation system. Moreover, the initial purchasers of the Notes may cease making a market in the Notes at any time without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally. As a result, we cannot assure note holders that there will be an active trading market for the Notes. If an active trading market is not maintained, the market price and liquidity of the Notes may be adversely affected. In that case, note holders might not be able to sell the Notes at a particular time or at a favorable price.

Any adverse rating of the Notes may cause their trading price to fall.

We have not obtained and do not intend to seek a rating on the Notes. However, if a rating service were to rate the Notes and if such rating service were to lower its rating on the Notes below the rating initially assigned to the Notes or otherwise announces its intention to put the Notes on credit watch, the trading price of the Notes could decline.

Note holders may be subject to tax if we make or fail to make certain adjustments to the conversion rate of the Notes even though note holders do not receive a corresponding cash distribution.

The conversion rate of the Notes is subject to adjustment in certain circumstances, including the payment of cash dividends. If the conversion rate is adjusted as a result of a distribution that is taxable to our common stockholders, such as a cash dividend, note holders may be deemed to have received a dividend subject to U.S. federal income tax without the receipt of any cash. In addition, a failure to adjust (or to adjust adequately) the conversion rate after an event that increases a note holder’s proportionate interest in us could be treated as a deemed taxable dividend to such note holder. If a make-whole fundamental change occurs prior to maturity, under some circumstances, we will increase the conversion rate for Notes converted in connection with the make-whole fundamental change. Such increase may also be treated as a distribution subject to U.S. federal income tax as a dividend. If a holder is a non-U.S. holder, any deemed dividend generally would be subject to U.S. federal withholding tax at a 30% rate, or such lower rate as may be specified by an applicable treaty, which may be set off against subsequent payments on the Notes.

Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, the vesting of restricted stock, settlement of restricted stock units and issuance of performance shares pursuant to our employee benefit plans, for purchase by employees under our employee stock purchase plan, upon conversion of the Notes and in relation to the warrant transactions we entered into in connection with the pricing of the Notes. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

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

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

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

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

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

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

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

Risks Relating to Ownership of Our Common Stock

The market price of our common stock has historically been and is likely to continue to be volatile, could adversely impact the trading price of the Notes and could subject us to litigation.

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our initial public offering in June 2012 at a price of $18.00 per share, our stock price has ranged from $22.62 to $81.24 through March 31, 2015. In addition, the trading prices of the securities of technology companies in general have been highly volatile, and the volatility in market price and trading volume of securities is often unrelated or disproportionate to the financial performance of the companies issuing the securities. Factors affecting the market price of our common stock include:

- variations in our growth rate, operating results, earnings per share, cash flows from operating activities, deferred revenue, and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;
- forward-looking statements related to future revenues and earnings per share;
- the net increases in the number of customers, either independently or as compared with published expectations of industry, financial or other analysts that cover our company;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new solutions or enhancements to services, strategic alliances or significant agreements by us or by our competitors;
- announcements regarding our efforts to expand our offerings for service domains outside of IT, and offerings for small and medium-sized businesses;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- disruptions in our services due to computer hardware, software or network problems, security breaches, or other man-made or natural disasters;
- the economy as a whole, and market conditions in our industry and the industries of our customers;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;
- the size of our market float and the volume of trading in our common stock, including sales upon exercise of outstanding options or vesting of equity awards or sales and purchases of any common stock issued upon conversion of the Notes or in connection with the Note Hedge and Warrant transactions relating to the Notes; and
- any other factors discussed herein.

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. A decrease in the market price of our common stock would likely adversely impact the trading price of our Notes. The price of our common stock could also be affected by possible sales of our common stock by investors who view the Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that we expect to develop involving our common stock. This trading activity could, in turn, affect the trading price of the Notes. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of our management’s attention and resources.

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

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

Our directors and executive officers beneficially own a significant percentage of our stock and are able to exert control over matters subject to stockholder approval.

As of December 31, 2014, our directors and executive officers and their respective affiliates beneficially owned in the aggregate approximately 10% of our outstanding voting stock. Together, these stockholders have the ability to influence us through this ownership position. For example, these stockholders may be able to influence elections of directors, amendments of our organizational documents, or the approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

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

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

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

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

Further, the fundamental change provisions of our Notes may delay or prevent a change in control of our company, because those provisions allow note holders to require us to repurchase such notes upon the occurrence of a fundamental change (as defined in the indenture for the Notes).

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference Form	File No.	Exhibit	Filed Herewith
3.1	Restated Certificate of Incorporation.	10-Q	001-35580	3.1	8/10/2012
3.2	Restated Bylaws.	8-K	001-35580	3.1	12/10/2014
4.1	Form of Common Stock Certificate.	S-1/A	333-180486	4.1	6/19/2012
4.2	Indenture dated November 13, 2013 between ServiceNow, Inc. and Wells Fargo Bank, National Association.	8-K	001-35580	4.1	11/13/2013
4.3	Third Amended and Restated Investors Rights Agreement dated November 25, 2009 among the Registrant and certain of its stockholders.	S-1	333-180486	4.2	3/30/2012
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.INS**	XBRL Instance Document.				X
101.SCH**	XBRL Taxonomy Extension Schema Document.				X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.				X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.				X

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

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not “filed” for purposes of Sections 11 or 12 of the Securities Act, are deemed not “filed” for purposes of Section 18 of the Exchange Act, and otherwise are not subject to liability under those Sections.

SIGNATURES

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

	SERVICENOW, INC.
Date: May 6, 2015	By: /s/ Frank Slootman Frank Slootman President and Chief Executive Officer (On behalf of the Registrant)
Date: May 6, 2015	By: /s/ Michael P. Scarpelli Michael P. Scarpelli Chief Financial Officer (As Principal Financial and Accounting Officer)

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