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

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

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2018
OR
¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 001-35580

SERVICENOW, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
	Emerging growth company ¨

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

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

As of September 30, 2018, there were approximately 179.3 million shares of the Registrant's Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See accompanying notes to condensed consolidated financial statements

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

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

(1) Includes stock-based compensation as follows:

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

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

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

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2018	2017 *As Adjusted
Cash flows from operating activities:		
Net loss	$(33,719)	$(99,500)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	106,492	81,808
Amortization of deferred commissions	107,367	68,154
Amortization of debt discount and issuance costs	43,795	36,581
Stock-based compensation	401,309	288,377
Deferred income tax	(32,297)	(6,055)
Gain on marketable equity securities	(19,257)	—
Repayments of convertible senior notes attributable to debt discount	(101,633)	—
Other	4,502	(1,554)
Changes in operating assets and liabilities, net of effect of business combinations:		
Accounts receivable	7,454	45,879
Deferred commissions	(152,521)	(114,514)
Prepaid expenses and other assets	1,519	(17,393)
Accounts payable	5,058	(11,088)
Deferred revenue	174,058	188,291
Accrued expenses and other liabilities	9,350	(829)
Net cash provided by operating activities	521,477	458,157
Cash flows from investing activities:		
Purchases of property and equipment	(136,349)	(115,856)
Business combinations, net of cash and restricted cash acquired	(24,940)	(26,537)
Purchases of other intangibles	(13,600)	(6,170)
Purchases of investments	(818,159)	(641,666)
Purchase of strategic investments	(8,839)	(4,000)
Sales of investments	39,975	77,968
Maturities of investments	861,629	350,597
Net cash used in investing activities[(1)]	(100,283)	(365,664)
Cash flows from financing activities:		
Net proceeds from borrowings on convertible senior notes	—	772,127
Repayments of convertible senior notes attributable to principal	(311,520)	—
Proceeds from issuance of warrants	—	54,071
Purchases of convertible note hedges	—	(128,017)
Repurchases and retirement of common stock	—	(55,000)
Proceeds from employee stock plans	100,437	76,748
Taxes paid related to net share settlement of equity awards	(221,268)	(131,130)
Payments on financing obligations	(756)	(2,681)
Net cash (used in) provided by financing activities	(433,107)	586,118
Foreign currency effect on cash, cash equivalents and restricted cash[(1)]	(9,593)	25,765
Net (decrease) increase in cash, cash equivalents and restricted cash[(1)]	(21,506)	704,376
Cash, cash equivalents and restricted cash at beginning of period[(1)]	727,829	401,932

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

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

(1) During the three months ended December 31, 2017, we adopted Accounting Standards Update 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Accordingly, we have recast our prior period condensed consolidated statement of cash flows to conform to the current presentation. The impact of the adoption for the nine months ended September 30, 2017 is not material.

See accompanying notes to condensed consolidated financial statements

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

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

(1) Description of the Business

ServiceNow is a leading provider of enterprise cloud computing solutions that define, structure, manage and automate services for global enterprises. We help our customers improve service quality and reduce costs while scaling and automating their businesses. We typically deliver our software via the Internet as a service, through an easy-to-use, consumer product-like interface, which means it can be easily configured and rapidly deployed. In a minority of cases, customers deploy our software internally or contract with a third party to host the software to support their unique regulatory or security requirements.

(2) Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the applicable rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements due to the permitted exclusion of certain disclosures for interim reporting. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary under GAAP for fair statement of results for the interim periods presented have been included. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for other interim periods or future years. The condensed consolidated balance sheet as of December 31, 2017 is derived from audited financial statements as adjusted to reflect the impact of the full retrospective adoption of Topic 606; however, it does not include all of the information and footnotes required by GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 28, 2018.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Such management estimates and assumptions include, but are not limited to, the stand-alone selling price (SSP) for each distinct performance obligation included in customer contracts with multiple performance obligations, the period of benefit for deferred commissions, the fair value of assets acquired and liabilities assumed for business combinations, stock-based compensation expenses, the assessment of the useful life and recoverability of our property and equipment, goodwill and identifiable intangible assets, and legal contingencies. Actual results could differ from those estimates.

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New Accounting Pronouncements Adopted in 2018

Fair Value Measurement

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

Stock-based Compensation

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

Income Taxes

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

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

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which includes a revision in the accounting for the income tax consequences of intra-entity transfers of assets other than inventory to reduce the complexity in accounting standards. We adopted this new standard as of January 1, 2018 with an immaterial amount of cumulative effect adjustment recorded to our accumulated deficit as of January 1, 2018. As this standard was adopted on a modified prospective basis as of January 1, 2018, the adoption of this standard did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

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Financial Instruments

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, with further clarifications made more recently. This new standard requires equity securities to be measured at fair value with changes in fair value recognized through the statement of operations, which may result in greater variability in our net income (loss). We adopted these new standards as of January 1, 2018 with a cumulative-effect adjustment, net of tax of $7.2 million recorded to our accumulated deficit as of January 1, 2018. This adjustment relates to the unrealized gain on our marketable equity securities as of December 31, 2017, which was previously included in accumulated other comprehensive income (loss) on our condensed consolidated balance sheet. As part of the adoption, we elected to apply the measurement alternative for our non-marketable equity investments that do not have readily determinable fair values, measuring them at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The adoption of these standards did not result in an adjustment for our non-marketable equity investments as our measurement alternative election requires adjustments to be recorded only on a prospective basis. As these standards were adopted on a modified prospective basis as of January 1, 2018, the adoption of these standards did not impact our previously reported financial statements for periods ended on or prior to December 31, 2017.

Revenue from Contracts with Customers

In May 2014, the FASB issued Topic 606, which supersedes the prior revenue recognition standard (Topic 605). Under Topic 606, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. In addition, this standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer.

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

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

In addition, under Topic 606, for all periods presented, we have deferred all incremental selling costs (primarily commissions) to obtain customer contracts, including indirect costs that are not tied to a specific contract, for both self-hosted offerings and cloud-based subscription offerings. On initial contracts and contracts for increased purchases with existing customers (expansion contracts), these costs are primarily amortized over a period of benefit that we have determined to be five years. On renewal contracts, these costs are amortized over the renewal term. Additionally, for self-hosted offerings, consistent with the recognition of subscription revenue for self-hosted offerings as described above, a portion of the commission cost is expensed upfront when the self-hosted offering is made available. Our prior practice under Topic 605 was to defer only direct and incremental commission costs to obtain a contract and amortize those costs over the contract term, which is generally 12 to 36 months, for both self-hosted offerings and cloud-based subscription offerings.

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

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

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

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

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

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

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

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

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Updated Significant Accounting Policies

Revenue Recognition

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

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

We determine revenue recognition through the following steps:

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

Subscription revenues

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

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

Professional services and other revenues

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

Contracts with multiple performance obligations

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

Unbilled Receivables

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

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Deferred Commissions

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

Deferred revenue

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

Customer deposits

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

Strategic investments

Our strategic investments consist of debt and non-marketable equity investments in privately-held companies in which we do not have a controlling interest or significant influence. Debt investments in privately-held companies are classified as available-for-sale and are recorded at their estimated fair value with changes in fair value recorded through accumulated other comprehensive income (loss). We have elected to apply the measurement alternative for equity investments that do not have readily determinable fair values, measuring them at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. An impairment loss is recorded when event or circumstance indicates a decline in value has occurred. We include these strategic investments in “Other assets” on the consolidated balance sheets.

New Accounting Pronouncements Pending Adoption

Cloud computing arrangements implementation costs

In August 2018, the FASB issued ASU 2018-15, “Intangibles—Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,’which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The new standard requires capitalized costs to be amortized on a straight-line basis generally over the term of the arrangement, and the financial statement presentation for these capitalized costs would be the same as that of the fees related to the hosting arrangements. This new standard is effective for our interim and annual periods beginning January 1, 2020 and earlier adoption is permitted. This standard could be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are evaluating the timing and impact of our pending adoption of this standard on our consolidated financial statements.

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SEC disclosure update

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

Income taxes

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

Credit losses

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

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which requires lessees to generally recognize on the balance sheet operating and financing lease liabilities and corresponding right-of-use assets, and to recognize on the income statement the expenses in a manner similar to current practice. This new standard, including related amendments subsequently issued by the FASB, is effective for our interim and annual periods beginning January 1, 2019, and early adoption is permitted. We are in the process of implementing changes to our existing systems and processes in conjunction with a review of existing vendor agreements and do not plan to early adopt this new standard. We currently anticipate that the adoption of this standard will have a material impact on our condensed consolidated balance sheets given that we had operating lease commitments in excess of $800 million as of September 30, 2018, on an undiscounted basis. The present value of these lease commitments will be recognized as right-of-use assets and lease liabilities at the later to occur of (i) the adoption date of January 1, 2019 or (ii) the time we take possession of the leased asset. However, we do not anticipate that the adoption of this standard will have a material impact on our condensed consolidated statements of comprehensive income (loss) since the expense recognition under this new standard will be similar to current practice. We do not expect the adoption of this standard to have a material impact on our condensed consolidated statements of cash flows.

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(3) Investments

Marketable Debt Securities

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

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

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

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

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

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

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

	December 31, 2017					
	Less than 12 Months		**12 Months or Greater**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Commercial paper	$14,809	$ (5)	$ —	$ —	$14,809	$ (5)
Corporate notes and bonds	819,113	(2,703)	141,874			