

ServiceNow, Inc.
Form 424B4
November 15, 2012
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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-184674
Registration No. 333-184950

PROSPECTUS

14,000,000 Shares

COMMON STOCK

ServiceNow, Inc. is offering 1,650,000 shares of common stock and the selling stockholders are offering 12,350,000 shares of common stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

*Our common stock is listed on the New York Stock Exchange under the symbol **NOW**. On November 14, 2012, the last reported sale price of our common stock as reported on the New York Stock Exchange was \$28.71 per share.*

*We are an **emerging growth company** as defined under the federal securities laws. Investing in our common stock involves risks. See **Risk Factors** beginning on page 10.*

PRICE \$28.00 A SHARE

	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to ServiceNow</i>	<i>Proceeds to Selling Stockholders</i>
<i>Per Share</i>	\$28.00	\$1.12	\$26.88	\$26.88
<i>Total</i>	\$392,000,000	\$15,680,000	\$44,352,000	\$331,968,000

We and the selling stockholders have granted the underwriters the right to purchase up to an additional 2,100,000 shares of common stock at the public offering price less the underwriting discount.

The Securities and Exchange Commission and state regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on November 20, 2012.

MORGAN STANLEY

CITIGROUP

DEUTSCHE BANK SECURITIES

BARCLAYS

CREDIT SUISSE

UBS INVESTMENT BANK

PACIFIC CREST SECURITIES

WELLS FARGO SECURITIES

November 14, 2012.

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You should rely only on the information contained in this prospectus or contained in any free writing prospectus filed with the Securities and Exchange Commission. Neither we, the selling stockholders nor the underwriters have authorized anyone to provide you with additional information or information different from that contained in this prospectus or in any free writing prospectus filed with the Securities and Exchange Commission. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the selling stockholders are offering to sell, and seeking offers to buy, our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside the United States: Neither we, the selling stockholders, nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside the United States.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations.

SERVICENOW, INC.

Overview

ServiceNow is a leading provider of cloud-based services to automate enterprise information technology, or IT, operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

We help transform IT organizations from reactive, manual and task-oriented, to pro-active, automated and service-oriented organizations. Our on-demand service enables organizations to define their IT strategy, design the systems and infrastructure that will support that strategy, and implement, manage and automate that infrastructure throughout its lifecycle. We provide a broad set of integrated applications that are highly configurable and can be efficiently implemented and upgraded. Further, our multi-instance architecture has proven scalability for global enterprises, as well as advantages in security, reliability and deployment location.

We offer our service under a Software-as-a-Service, or SaaS, business model. Customers can rapidly deploy our service in a modular fashion, allowing them to solve immediate business needs and access, configure and build new applications as their requirements evolve. Our service, which is accessed through an intuitive web-based interface, can be easily configured to adapt to customer workflow and processes. Upgrades to our service are designed to be efficient and compatible with configuration changes and applied with minimal disruption to ongoing operations.

We have achieved significant growth in recent periods. A majority of our revenues comes from large, global enterprise customers. Our total customers grew 58% from 852 as of September 30, 2011 to 1,346 as of September 30, 2012. Our customers operate in a wide variety of industries, including financial services, consumer products, IT services, health care and technology. For the fiscal years ended June 30, 2010 and 2011, our revenues grew 114% from \$43.3 million to \$92.6 million. We incurred a net loss of \$29.7 million and generated net income of \$9.8 million for the fiscal years ended June 30, 2010 and 2011, respectively. For the six months ended December 31, 2010 and 2011, our revenues grew 93% from \$37.9 million to \$73.4 million. We generated net income of \$4.8 million and incurred a net loss of \$6.7 million for the six months ended December 31, 2010 and 2011, respectively. For the nine months ended September 30, 2011 and 2012, our revenues grew 90% from \$88.9 million to \$168.6 million. We generated net income of \$5.1 million and incurred a net loss of \$27.4 million for the nine months ended September 30, 2011 and 2012, respectively.

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Our Industry

Enterprises Face Increasing Challenges in Managing and Automating IT Operations

For decades, enterprises have invested in IT to empower their workforces and enable business-critical functionality. This investment reflects enterprise dependence on a myriad of software applications, databases, operating systems, servers, networking equipment, personal computers, mobile devices, and a variety of other hardware and software assets. When managing the IT environment, enterprises face significant challenges:

Complexity of IT environments. The accelerating adoption of cloud-based services, virtual servers and desktops, and mobile technologies has added to the complexity of enterprise IT environments.

Budget pressures. IT executives are consistently asked to deliver more value for less cost and to provide transparency regarding the true costs and business value of IT investments. The most recent downturn in the global economy has heightened these demands.

Alignment to business goals. IT organizations are increasingly asked to be proactive and design and develop new processes that span the entire enterprise, rather than support a set of discrete technologies and react to business changes. IT organizations must develop strategies to enable necessary business changes. This has resulted in a much greater need for alignment of IT strategy and performance with overall business performance.

Consumerization of IT. Individuals are spending more time interacting with intuitive, social and mobile consumer-oriented Internet services. These experiences have increased business users' expectations that they can access and interact with corporate IT technologies in a similar, familiar way. IT organizations are struggling to respond to these increased demands in a cost-effective manner.

Integration and standardization. Enterprises need integrated and standardized solutions that work with their existing systems and follow the most recent Information Technology Infrastructure Library, or ITIL, standard, a set of recommended business processes designed and adopted by IT operations industry participants globally to maximize the availability and usability of IT assets and the efficiency of IT staff.

Legacy IT Management Products Fall Short

Organizations have invested heavily in legacy software products to manage the inventory, cost and performance of IT resources. These traditional software products were originally architected in the 1980s and 1990s before the introduction of many of today's modern computing technologies. Shortcomings of these legacy products include:

Disparate and redundant solutions. Many legacy IT management products were developed and widely deployed decades ago. Vendors of these products have in many cases relied upon acquisitions and partnerships to extend their offerings and have not re-architected their solutions to provide the seamless, integrated platform that customers desire. In addition, enterprises may have overlapping solutions in various business units, especially those that have grown by acquisition or that operate globally. As a result, many enterprises operate multiple systems and infrastructures.

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Inflexible integration, customization and maintenance. Enterprises face numerous challenges when trying to customize legacy IT management products to meet their specific needs, as well as integrate them with third-party solutions. Due to their architectures and proprietary languages, these inflexible products often cannot be easily customized to meet customers' business requirements and are difficult to integrate and maintain. As a result, enterprises may be required to adapt their business processes to the capabilities of the software.

Highly manual. Many legacy IT management products installed today are labor intensive, time-consuming, prone to error and prevent IT from rapidly responding to business needs.

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Upgrade challenges and disruption of service. Once legacy IT management products have been installed, integrated and customized, upgrades can be challenging. As new versions of the software are released on a periodic basis, customers are often required to re-implement the updated software with limited ability to carry forward customizations.

Difficult to use and access. Many legacy IT management products lack a modern, easy to navigate user interface and were not originally designed to be accessed over the Internet or on mobile devices.

High total cost of ownership. Because legacy IT management products are often disparate, inflexible, highly manual, challenging to upgrade and difficult to use and access, we believe these products have a high total cost of ownership.

Our Solution

Our cloud-based service includes the following key elements:

Broad set of integrated functionality. Our suite of applications was developed to address core ITIL processes as well as additional business processes, and runs on a single extensible platform. Our platform includes workflow automation, notification, assignment and escalation, third-party integration capabilities, reporting and business intelligence, social and collaboration and administration capabilities. Our cloud-based service is designed to be deployed in a modular fashion, allowing customers to solve immediate business needs and access new application functionality as needs evolve.

Automation of IT operations. Our service automates the documentation, categorization, prioritization, assignment, notification and escalation of IT and other business processes. Additionally, our service automates routine and repeatable data center operations such as rebooting a server, cloning a database or deploying a virtualized environment.

Highly configurable and extensible to meet business needs. Our configuration features are designed to give customers the ability to easily alter the appearance and operation of the user interface, change and develop business rules to meet specific requirements, and extend the database schema to support the tracking and capturing of necessary data. As a result, our service enables management of IT operations without requiring changes to existing business processes. In addition, our customers and partners can use our platform to build applications to automate processes that are unique to their businesses.

Efficient implementations and integration. Our cloud-based model allows customers to quickly access and deploy our service without the need to install and maintain costly infrastructure hardware and software necessary for on-premises deployments. Our service is developed on an architecture that enables efficient integration with third-party architectures and other data sources.

Efficient upgrades. We design our upgrades to be compatible with customer configuration changes and applied rapidly with minimal disruption to ongoing operations, enabling customers to be on the most up-to-date version.

Scalable, secure and reliable multi-instance architecture. Our multi-instance architecture is designed to provide scalability, security and reliability for customers' large, global businesses. By providing customers with dedicated applications and databases we ensure that customer data is not comingled. In addition, this architecture reduces risk associated with infrastructure outages, improves system scalability and security, and allows for flexibility in deployment location.

Our cloud-based service provides the following business benefits:

Single system of record for IT. We provide a single system of record for IT executives to track assets, activities and resources across the multiple systems and infrastructures currently in use in large

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enterprises. This provides executives with the ability to execute their IT strategy by quickly assessing how well their IT infrastructure is supporting business processes, analyzing business needs real-time and developing business solutions as needs evolve.

Lower total cost of ownership. We assume complete responsibility for our service, including application set, hosting infrastructure, maintenance, monitoring, storage, security, customer support and upgrades, all of which free customer resources. Additionally, we manage, monitor and handle upgrades and patch deployments remotely, which can result in lower total cost of ownership to our customers compared to legacy IT management products.

Easy to use and widely accessible. Our suite of intuitive and easy-to-use applications provides users with a familiar experience based on business-to-consumer concepts. Users can access our service through a web-based interface anywhere an Internet connection is available, including through mobile devices. We believe this ease of use and accessibility result in increased user adoption of specified processes, enhancing efficiency.

Our Growth Strategy

Our goal is to be the industry-recognized leading provider of cloud-based services to automate enterprise IT operations. Key elements of our growth strategy include:

Expand our customer base. We believe the global market for next-generation enterprise IT operations management is large and underserved, and we intend to continue to make investments in our business to capture increasingly larger market share. To expand our customer base we intend to invest in our direct sales force and strategic resellers as well as our data center footprint. In particular, we grew our sales and marketing team from 206 as of September 30, 2011 to 330 as of September 30, 2012.

Further penetrate our existing customer base. We intend to increase the number of subscriptions purchased by our current customers as they deploy additional core ITIL and extended IT applications, and use our platform to develop custom applications to meet business needs outside of IT. Additionally, we believe there are significant cross-sell opportunities for our separately priced Discovery and Runbook Automation technologies.

Expand internationally. We have a large and growing international presence, and intend to grow our customer base in various regions. We are investing in new geographies, including investment in direct and indirect sales channels, data centers, professional services, customer support and implementation partners.

Continue to innovate and enhance our service offerings. We have made, and will continue to make, significant investments in research and development to strengthen our existing applications, expand the number of applications on our platform and develop additional automation technologies. We typically offer multiple upgrades each year that allow our customers to benefit from ongoing innovation.

Strengthen our customer community. We have an enthusiastic and engaged customer community that contributes to our success through their willingness to share their ServiceNow experiences with other potential customers. Customer needs drive our development efforts. We will continue to leverage our large and growing customer community to expose our existing customers to new use cases and increase awareness of our service.

Develop our partner ecosystem. We intend to further develop our existing partner ecosystem by establishing agreements with strategic resellers and system integrators to provide broader customer coverage, access to senior executives and solution delivery capabilities. As we expand our base of partners, we intend to grow our indirect sales team and marketing efforts to support our

distribution network.

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Further promote our extensible platform. We plan to grow investments in our platform to better enable the creation of custom applications to address specific business issues. We believe our platform provides substantial application development capabilities and we intend to further realize the potential of our platform as a strategy to penetrate large and growing markets.

Selected Risks Associated with Our Business

Our business is subject to a number of risks and uncertainties, including those highlighted in the section titled "Risk Factors" immediately following this prospectus summary. Some of these risks are:

We have a limited history of operating profits and, as our growth rates decline and our costs increase, may not achieve or maintain profitability in the future;

We have experienced rapid growth in recent periods and may not be able to manage this growth and expansion, or our business may not grow as we expect;

The market for enterprise IT operations management solutions is rapidly evolving and highly competitive;

Declines in customer renewal rates would harm our future operating results;

Defects or disruptions in our service or security breaches could diminish demand for our service and subject us to substantial liability;

We need to continue to invest in enhancements to our cloud infrastructure and if our required investments are greater than anticipated or fail to yield anticipated cost savings and performance benefits, our financial results will be negatively impacted;

Interruptions or delays in service from our third-party data center facilities could impair the delivery of our service and harm our business;

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

Our quarterly results may fluctuate and, if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially; and

Our directors, officers and principal stockholders beneficially owned approximately 77% of our outstanding stock prior to this offering, will beneficially own approximately 68% after this offering and therefore will continue to have the ability to determine all matters requiring stockholder approval.

Corporate Information

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We were incorporated as Glidesoft, Inc. in California in June 2004 and changed our name to Service-now.com in February 2006. In May 2012, we reincorporated into Delaware as ServiceNow, Inc. Our principal executive offices are located at 4810 Eastgate Mall, San Diego, California 92121, and our telephone number is (858) 720-0477. Our website address is www.servicenow.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock. We have included our website address in this prospectus solely as an inactive textual reference.

Unless the context indicates otherwise, as used in this prospectus, the terms ServiceNow, we, us and our refer to ServiceNow, Inc., a Delaware corporation, and its subsidiaries taken as a whole, unless otherwise noted.

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In February 2012, we changed our fiscal year-end from June 30 to December 31. Throughout this prospectus, references to fiscal 2009, fiscal 2010 and fiscal 2011 are to the fiscal years ended June 30, 2009, 2010 and 2011, respectively.

We have registered the trademark **SERVICENOW** with the United States Patent and Trademark Office. Our ServiceNow logo, **Discovery** and **Runbook Automation** are unregistered trademarks or service marks of ServiceNow and are the property of ServiceNow. This prospectus also includes references to trademarks and service marks of other entities, and those trademarks and service marks are the property of their respective owners.

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The following consolidated financial data should be read together with our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus. We have derived the following consolidated statements of operations data for fiscal 2009, 2010 and 2011 and for the six months ended December 31, 2011 and the selected consolidated balance sheet data as of June 30, 2010 and 2011 and December 31, 2011 from our audited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated statement of operations data for the six months ended December 31, 2010 and the nine months ended September 30, 2011 and 2012, and the unaudited selected consolidated balance sheet data as of September 30, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited financial information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, we consider necessary for a fair statement of the financial information set forth in those statements. Our historical results are not necessarily indicative of our results to be expected for any future period.

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Nine Months Ended September 30,	
	2009	2010	2011	2010	2011	2011	2012
	(in thousands, except share and per share data)						
Consolidated Statements of Operations Data:							
Revenues ⁽¹⁾ :							
Subscription	\$ 17,841	\$ 40,078	\$ 79,191	\$ 33,191	\$ 64,886	\$ 76,331	\$ 141,640
Professional services and other	1,474	3,251	13,450	4,753	8,489	12,563	26,910
Total revenues	19,315	43,329	92,641	37,944	73,375	88,894	168,550
Cost of revenues ⁽²⁾⁽³⁾ :							
Subscription	3,140	6,378	15,311	6,096	15,073	15,538	43,182
Professional services and other	4,711	9,812	16,264	6,778	12,850	15,095	28,519
Total cost of revenues	7,851	16,190	31,575	12,874	27,923	30,633	71,701
Gross profit	11,464	27,139	61,066	25,070	45,452	58,261	96,849
Operating expenses ⁽²⁾⁽³⁾ :							
Sales and marketing	8,499	19,334	34,123	13,728	32,501	34,375	74,356
Research and development	2,433	7,194	7,004	2,758	7,030	7,003	26,098
General and administrative	6,363	28,810	9,379	3,417	10,084	10,471	24,441
Total operating expenses	17,295	55,338	50,506	19,903	49,615	51,849	124,895
Income (loss) from operations	(5,831)	(28,199)	10,560	5,167	(4,163)	6,412	(28,046)
Interest and other income (expense), net	(27)	(1,226)	606	289	(1,446)	(412)	1,148
Income (loss) before provision for income taxes	(5,858)	(29,425)	11,166	5,456	(5,609)	6,000	(26,898)
Provision for income taxes	48	280	1,336	653	1,075	852	519
Net income (loss)	\$ (5,906)	\$ (29,705)	\$ 9,830	\$ 4,803	\$ (6,684)	\$ 5,148	\$ (27,417)

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	Fiscal Year Ended June 30,			Six Months Ended		Nine Months Ended	
	2009	2010	2011	2010	2011	2011	2012
(in thousands, except share and per share data)							
Net income (loss) per share attributable to common stockholders ⁽⁴⁾ :							
Basic	\$ (0.17)	\$ (1.31)	\$ 0.09	\$ 0.04	\$ (0.33)	\$ 0.05	\$ (0.49)
Diluted	\$ (0.17)	\$ (1.31)	\$ 0.08	\$ 0.04	\$ (0.33)	\$ 0.04	\$ (0.49)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders ⁽⁴⁾ :							
Basic	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	19,695,440	57,089,411
Diluted	39,039,066	23,157,576	28,095,486	27,622,357	21,104,219	30,612,539	57,089,411

- (1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the nine months ended September 30, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.
- (2) Stock-based compensation included in the statements of operations data above was as follows:

	Fiscal Year Ended June 30,			Six Months Ended		Nine Months Ended	
	2009	2010	2011	2010	2011	2011	2012
(in thousands)							
Cost of revenues:							
Subscription	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 524	\$ 2,514
Professional services and other	11	28	117	37	193	151	964
Sales and marketing	45	277	1,004	431	2,010	1,373	6,852
Research and development	50	90	468	207	704	524	4,121
General and administrative	15	102	817	221	2,056	1,652	4,137

- (3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.
- (4) Please refer to Note 13 to our consolidated financial statements for an explanation of the method used to calculate the historical net income (loss) per share attributable to common stockholders and the number of shares used in the computation of the per share amounts.

	As of June 30,	As of	As of
	2010	December 31,	September 30,
	2011	2011	2012
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$ 29,402	\$ 59,853	\$ 68,088
Working capital, excluding deferred revenue	33,080	75,801	95,033
Total assets	51,369	108,746	156,323
			382,204

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Deferred revenue, current and non-current portion	40,731	74,646	104,636	147,946
Convertible preferred stock	67,227	67,860	68,172	
Total stockholders' equity (deficit)	(71,262)	(58,381)	(57,426)	191,268

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. If any of the following risks actually occurs, our business, financial condition, results of operations and future prospects could be harmed. In that event, the market price of our common stock could decline and you could lose part or even all of your investment.

Risks Related to Our Business and Industry

We have a limited history of operating profits, did not generate a profit in the six months ended December 31, 2011 or the nine months ended September 30, 2012, and may not achieve or maintain profitability in the future.

We have not been consistently profitable on a quarterly or annual basis. Although we had net income for fiscal 2011, we experienced net losses of \$5.9 million, \$29.7 million, \$6.7 million and \$27.4 million for fiscal 2009, fiscal 2010, the six months ended December 31, 2011 and the nine months ended September 30, 2012, respectively. As of September 30, 2012, our accumulated deficit was \$95.6 million. While we have experienced significant revenue growth over recent periods, we may not be able to sustain or increase our growth or return to profitability in the future. Over the past year, we have significantly increased our expenditures to support the development and expansion of our business, which has resulted in increased losses. We plan to continue to invest for future growth, and as a result, we do not expect to be profitable for the foreseeable future. In addition, as a public company, we will continue to incur significant accounting, legal and other expenses that we did not incur as a private company. As a result of these increased expenditures, we will have to generate and sustain increased revenues to achieve future profitability. We may incur significant losses in the future for a number of reasons, including without limitation the other risks and uncertainties described in this prospectus. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If these losses exceed our expectations or our revenue growth expectations are not met in future periods, our financial performance will be harmed.

We have experienced rapid growth in recent periods. If we are not able to manage this growth and expansion, or if our business does not grow as we expect, our operating results may suffer.

We continue to experience rapid growth in our customer base and have significantly expanded our operations during the last several years. In particular, we are aggressively investing in: significant expansion of our cloud infrastructure and associated service capacity; our global sales, marketing and operations activities and personnel; and additional office facility lease commitments and administrative employees. Our employee headcount has increased from 491 as of September 30, 2011 to 963 as of September 30, 2012, and we plan on adding over 181 employees during the remainder of 2012. We signed new leases for a larger corporate office in San Diego in February 2012, additional office space in Amsterdam in September 2012 and San Jose in November 2012 and are currently seeking to further expand our London office. In addition, we hired new senior management in 2011 and 2012. Our rapid growth has placed, and will continue to place, a significant strain on our administrative and operational infrastructure facilities and other resources. Our ability to manage our operations and growth will require us to continue to expand our sales force, facilities, infrastructure and operations, and refine our operational, financial and management controls, human resource policies, and reporting systems and procedures. For instance, in 2012 we have been implementing a new financial enterprise resource planning system to help manage our future growth and are in the process of integrating that system with our customer relationship management system. If we fail to efficiently expand our sales force, operations, cloud infrastructure or IT and financial systems, or if we fail to implement or maintain effective internal controls and procedures, our costs and expenses may increase more than we plan and we may lose the ability to close customer opportunities, enhance our existing service, develop new applications, satisfy customer requirements, respond to competitive pressures or otherwise execute our business plan. Additionally, as our operating expenses increase in anticipation of the growth of our business, if such

growth does not meet our expectations, our financial results likely would be harmed.

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Defects or disruptions in our service could diminish demand for our service, harm our financial results and subject us to substantial liability.

Our customers use our service for important aspects of their businesses, and any errors, defects, disruptions to our service or other performance problems with our service could hurt our reputation and may damage our customers' businesses. From time to time, we have found defects in our service, and new errors in our existing service may be detected in the future. For example, recently a few of our largest customers have been experiencing reduced levels of availability, performance and functionality due to the scale at which they have implemented our service. We provide regular product updates, which frequently contain undetected errors when first introduced or released. Defects may also be introduced by our use of third-party software, including open-source software. Defects can be hard to detect and may result in disruptions to our service. In addition, our customers may use our service in ways that cause disruptions in service for other customers. Customers have delayed, and may in the future delay, payment to us, may elect not to renew, and may make service credit claims, warranty claims or other claims against us. As a result, we could lose future sales. Further, if we do not meet the stated service level commitments we have guaranteed to our customers or suffer extended periods of unavailability for our service, we have provided and in the future may be contractually obligated to provide these customers with credits for future service. The occurrence of payment delays, service credit, warranty 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 increased expenses or risks of litigation. We do not carry insurance sufficient to compensate us for the potentially significant losses that may result from claims arising from defects or disruptions in our service or the potential harm to the future growth of our business due to defects or disruptions.

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our service may be perceived as not being secure, customers may curtail or stop using our service, and we may incur significant liabilities.

Our operations involve the storage and transmission of our customers' confidential information, and security breaches, computer malware and computer hacking attacks could expose us to a risk of loss of this information, litigation, indemnity obligations and other liability. For example, our third-party data center facility in London was subjected to a distributed denial of service attack in January 2012 that prevented some of our customers hosted in that data center from using our service intermittently for a period of about three hours. While we have administrative, technical, and physical security measures in place, and try to contractually require third parties to whom we transfer data to implement and maintain appropriate security measures, if our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers' data, including personally identifiable information regarding users, our reputation will be damaged, our business may suffer and we could incur significant liability. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because techniques used to obtain unauthorized access or to 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, the market perception of the effectiveness of our security measures could be harmed and we could lose potential sales and existing customers.

We need to continue to invest in enhancements to our cloud infrastructure and if our required investments are greater than anticipated or fail to yield anticipated cost savings and performance benefits, our financial results will be negatively impacted.

We have made and will continue to make substantial investments in new equipment to support growth at our data centers, provide enhanced levels of service to our customers and reduce future costs of subscription revenues. In the nine months ended September 30, 2012, we purchased \$18.8 million in equipment for use in our data centers. Ongoing improvements to our cloud infrastructure may be more expensive than we anticipate, and

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may not yield the expected savings in operating costs or the expected performance benefits. In addition, we may be required to re-invest any cost savings achieved from prior cloud infrastructure improvements in future infrastructure projects to maintain the levels of service required by our customers. We may not be able to maintain or achieve cost savings from our investments, which could harm our financial results.

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

Our future growth is dependent upon our ability to continue to meet the needs of new customers and the expanding needs of our existing customers as their use of our service grows. As our customers gain more experience with our service, the number of users and transactions managed by our service, the amount of data transferred, processed and stored by us, the number of locations where our service is being accessed, and the number of processes and systems managed by our service on behalf of these customers have in some cases, and may in the future, expand rapidly. Recently, a few of our largest customers have been experiencing reduced levels of availability, performance and functionality due to the scale at which they have implemented our service. In order to meet the performance and other requirements of our customers, we intend to continue to make significant investments to develop and implement new technologies in our service and cloud 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 service and operations to meet the needs of our growing customer base and to maintain performance as our customers expand their use of our service, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our services and we may be unable to compete as effectively and our business and operating results may be harmed.

Interruptions or delays in service from our third-party data center facilities could impair the delivery of our service and harm our business.

We currently serve our customers from third-party data center facilities, operated by several different providers, located around the world, with the largest located in Virginia, California, London and Amsterdam. Any damage to, or failure of, our systems, or those of our third-party data centers, could result in interruptions in our service. Impairment of or interruptions in our service may reduce our revenues, cause us to issue credits or pay penalties, subject us to claims and litigation, cause our customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

We do not control, or in some cases have limited control over, the operation of the data center facilities we use, and they 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, and to 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, the occurrence of a natural disaster, an act of terrorism or other act of malfeasance, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service and the loss of customer data.

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

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Use of SaaS applications to manage and automate enterprise IT is at an early stage. We do not know whether the trend of adoption of enterprise SaaS solutions we have experienced in the past will continue in the

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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 SaaS. Furthermore, some organizations, particularly large enterprises upon which we are dependent, have been reluctant or unwilling to use SaaS because they have concerns regarding the risks associated with the security of their data and the reliability of the technology delivery model associated with these solutions. In addition, if other SaaS providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for SaaS solutions as a whole, including our service, will be negatively impacted. If the adoption of SaaS 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.

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

The market for enterprise IT operations management solutions is fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry in some segments. Many of our competitors and potential competitors are larger and have greater name recognition, much longer operating histories, more established customer relationships, larger marketing budgets and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our service and new market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. If we are unable to achieve our target pricing levels, our operating results would be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our service to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from in-house solutions, large integrated systems vendors and smaller companies with point solutions including SaaS offerings. Our competitors vary in size and in the breadth and scope of the products and services offered. Our primary competitors include BMC Software, Inc., CA, Inc., Hewlett-Packard Company and International Business Machines Corporation, all of which are much larger and have substantially more financial resources than we do, and 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. In addition, many of our competitors offer SaaS solutions and may make acquisitions of businesses or assets that improve their service offerings. Further, other established SaaS providers not currently operating in enterprise IT operations management may expand their services to compete with our service. Many of our current and potential competitors have established marketing relationships, access to larger customer bases, pre-existing customer relationships and major distribution agreements with consultants, system integrators and resellers. In addition, some competitors may offer software that addresses one or a limited number of enterprise IT operation functions at lower prices or with greater depth than our service. Moreover, as we expand the scope of our service, we may face additional competition from platform and application development vendors. Additionally, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

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

We target our sales efforts at large enterprises, which we define as companies with over \$750 million in revenues and a minimum of 200 IT employees. For instance, we derived approximately 10%, 12% and 11% of our revenues from large enterprise customers in the financial services industry for fiscal 2011, the six months ended December 31, 2011 and the nine months ended September 30, 2012, respectively. Because our large

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enterprise customers are often making an enterprise-wide decision to deploy our service, sometimes on a global basis, we face long sales cycles, complex customer requirements, substantial upfront 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. Large enterprises often undertake a prolonged evaluation of our service, including whether the customer needs professional services performed by us or a third party for its unique IT and business process needs, and a comparison of our service to products offered by our competitors. Moreover, our large enterprise customers often begin to deploy our service on a limited basis, but nevertheless demand extensive configuration, integration services and pricing concessions, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our service widely enough across their organization to justify our substantial upfront investment. It is possible in the future we may experience even longer sales cycles, more complex customer needs, higher upfront sales costs and less predictability in completing some of our sales as we continue to expand our direct sales force and thereby increase the percentage of our sales personnel with less experience in selling our service, expand into new territories and expand into functional areas outside of the traditional ITIL processes. If our sales cycle lengthens or our substantial upfront sales and implementation investments do not result in sufficient sales to justify our investments, our operating results may be harmed.

Our business depends substantially on our customers renewing their subscriptions and purchasing additional subscriptions from us. Any decline in our customer renewals would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions when the initial contract term expires and add additional authorized users to their subscriptions. Our customers have no obligation to renew their subscriptions, and we cannot assure you that our customers will renew subscriptions with a similar contract period or with the same or a greater number of authorized users. Although our renewal rates have been historically 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 their satisfaction with our subscription service, our professional services, our customer support, our 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 future success 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 we may not realize improved operating results from our customer base.

If we are not able to develop enhancements and new applications that achieve market acceptance or that keep pace with technological developments, our business could be harmed.

Our ability to attract new customers and increase revenues from existing customers depends in large part on our ability to enhance and improve our existing service and to introduce new services. In order to grow our business, we must develop a service that reflects future updates to the ITIL framework and extends beyond the ITIL framework into other areas of enterprise IT operations management. The success of any enhancement or new service 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, contain defects or may not achieve the broad market acceptance necessary to generate significant revenues. If we are unable to successfully develop new applications or enhance our existing service to meet customer requirements, our business and operating results will be harmed.

Because we designed our service to be provided over the Internet, we need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication and

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database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and standards changes, our service may become less marketable and less competitive or obsolete and our operating results may be harmed.

If we fail to integrate our service with a variety of operating systems, software applications and hardware that are developed by others, our service may become less marketable and less competitive or obsolete, and our operating results would be harmed.

Our service must integrate with a variety of network, hardware and software platforms, and we need to continuously modify and enhance our platform to adapt to changes in cloud-enabled hardware, software, networking, browser and database technologies. Any failure of our service to operate effectively with future infrastructure platforms and technologies could reduce the demand for our service, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to these changes in a cost-effective manner, our service may become less marketable and less competitive or obsolete and our operating results may be negatively impacted. In addition, an increasing number of individuals within the enterprise are utilizing mobile devices to access the Internet and corporate resources and to conduct business. If we cannot effectively make our service available on these mobile devices and offer the information, services and functionality required by enterprises that widely use mobile devices, we may experience difficulty attracting and retaining customers.

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 service. 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. 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. Due to the additional requirements of the U.S. federal government, we are in the process of establishing compliance with the Federal Information Security Management Act and other federal standards relating to our operations, security controls, processes and architecture. Individual agencies also have unique requirements, such as requirements that we use U.S.-only personnel or a requirement to use our service in a non-hosted environment. We may not be able to meet these standards or requirements. Even if we do meet them, the additional costs associated with providing our service 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 service to them and to grow or maintain our customer base.

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 service.

Increasing our customer base and achieving broader market acceptance of our service 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 September 30, 2011 to September 30, 2012, our sales and marketing organization increased from 206 to 330 employees. We plan to continue to expand our direct sales force both domestically and internationally. We believe that 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. New hires require significant training and time before they achieve full productivity, particularly in new sales territories. Our recent hires and planned hires may not become as productive as quickly as we would like, and we may be unable to hire or retain

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sufficient numbers of qualified individuals in the future in the markets where we do business. Because we do not have a long history of expansion in our sales force, we cannot predict whether or to what extent our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. Moreover, we do not have significant experience as an organization developing and implementing overseas marketing campaigns, and such campaigns may be expensive and difficult to implement. Our business will be harmed if our expansion efforts do not generate a significant increase in revenues.

Our current management team is new and if we lose key members of our management team or are unable to attract and retain executives and employees we need to support our operations and growth, our business may be harmed.

Each of our executive officers either joined us recently or has taken on a new role in the organization. These changes in our executive management team may be disruptive to our business. Our success depends substantially upon the continued services of this new group of executive officers, particularly Frank Sloatman, our Chief Executive Officer, who joined us in May 2011, and Frederic B. Luddy, our founder and Chief Product Officer, who are critical to our vision, strategic direction, culture, services and technology. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Our executive officers are generally employed on an at-will basis, which means that our executive officers could terminate their employment with us at any time. The loss of one or more of our executive officers or the failure by our executive team to effectively work with our employees and lead our company could harm 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 infrastructure engineers in San Diego, San Jose, 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.

Our quarterly results may fluctuate, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment 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, 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 include:

our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;

the number of new employees added;

the rate of expansion and productivity of our sales force;

changes in the relative and absolute levels of professional services we provide;

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the cost, timing and management effort for the development of new services;

the length of the sales cycle for our service;

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 operations and expansion of our business;

significant security breaches, technical difficulties or interruptions with our service;

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new solutions, products or changes in pricing policies introduced by our competitors;

changes in foreign currency exchange rates;

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;

changes in deferred revenue balances due to the seasonal nature of our customer invoicing, changes in the average duration of our customer agreements, the rate of renewals and the rate of new business growth;

the timing of customer payments and payment defaults by customers;

extraordinary expenses such as litigation or other dispute-related settlement payments;

the impact of new accounting pronouncements; and

the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards ratably over their vesting schedules.

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 may not be meaningful and should not be relied upon as an indication of future performance.

We expect our revenue growth rate to decline, and as our costs increase, we may not be able to generate sufficient revenue to sustain our profitability over the long term.

From fiscal 2009 to fiscal 2011, our revenues grew from \$19.3 million to \$92.6 million, which represents a compounded annual growth rate of 119%. We expect that, in the future, as our revenues increase to higher levels, our revenue growth rate will decline. However, we may not be able to generate sufficient revenues to achieve and sustain profitability as we also expect our costs to increase in future periods. We expect to continue to expend substantial financial and other resources on:

our technology infrastructure, including enhancements to our cloud architecture and hiring of additional employees for our research and development team;

software development, including investments in our software development team, the development of new features and the improvement of the scalability, availability and security of our service;

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sales and marketing, including a significant expansion of our direct sales organization;

international expansion in an effort to increase our customer base and sales; and

general administration, including legal and accounting expenses related to being a public company.

These investments may not result in increased revenues or growth in our business. If we fail to continue to grow our revenues and overall business, our operating results and business would be harmed.

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, which on average are approximately 30 months in duration for initial contract terms, although terms can range from 12 to 120 months. 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

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or renewed subscriptions in any single quarter will likely have only a small 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 service, 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.

If we are unable to successfully manage the growth of our professional services business and improve our profit margin from these services, our operating results will be harmed.

Our professional services business, which performs implementation and configuration of our subscription service for our customers, has grown as our revenues from subscriptions have grown. We believe our investment in professional services facilitates the adoption of our subscription service. As a result, our sales efforts have been focused primarily on our subscription service, rather than the profitability of our professional services business. Historically, our pricing for professional services was predominantly on a fixed-fee basis and the cost of the time and materials incurred to complete these services were greater than the amount charged to the customer. These factors contributed to our negative gross profit percentages from professional services and other of (220)%, (202)% and (21)% for fiscal 2009, 2010 and 2011, respectively, (43)% and (51)% for the six months ended December 31, 2010 and 2011, respectively, and (20)% and (6)% for the nine months ended September 30, 2011 and 2012, respectively. The improvement in gross profit percentages was due in part to the adoption of new revenue recognition accounting guidance commencing on July 1, 2010. In addition, in December 2011, we began shifting our pricing model to a time-and-materials basis and pricing our services predominantly based on the anticipated cost of those services. If we are unable to successfully transition to a time-and-materials based pricing model and manage the growth of our professional services business, our operating results, including our profit margins, will be harmed. In addition, the shift to this new pricing model may cause our sales cycle to lengthen.

We may 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. 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. In the future, we may receive claims that our applications and underlying technology infringe or violate the claimant's intellectual property rights. However, we may be unaware of the intellectual property rights of others that may cover some or all of our technology or services. 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 service, 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 service or refund fees, which could further exhaust our resources. In addition, we may pay substantial settlement costs to resolve claims or litigation, whether or not legitimately or successfully asserted against us, which could include royalty payments in connection with any such litigation and to obtain licenses, modify our service or refund fees, which could further exhaust our resources. 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. Such disputes could also disrupt our service, causing an adverse impact to our customer satisfaction and related renewal rates.

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

A significant portion of the technologies licensed or developed by us incorporate so-called open source software, and we may incorporate open source software into other services in the future. We attempt to monitor

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our use of open source software in an effort to avoid subjecting our service to conditions we do not intend; 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 service and technologies. For example, depending on which open source license governs open source software included within our service or technologies, we may be subjected to conditions requiring us to offer our service 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.

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, we could be subject to significant damages or be enjoined from the distribution of our service. In addition, if we combine our proprietary software with open source software in a certain manner, under some open source licenses we could be required to release the source code of our proprietary software, which could substantially help our competitors develop solutions that are similar to or better than our service.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

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, trade secret and other intellectual property laws and confidentiality procedures to protect our proprietary rights. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology and our business may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. We have only recently begun to develop a strategy to seek, and may be unable to obtain, patent protection for our technology. In addition, 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. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is 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. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We may be required to spend significant resources to monitor and protect our intellectual property rights. We 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 and divert the efforts of our technical and management personnel.

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

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. In particular, we depend on a limited number of third parties to provide a majority of our implementation services. Our strategy is to work with third parties to increase the breadth of capability and the depth of capacity for delivery of these services to our customers.

We intend to expand our relationships with third parties, such as implementation partners, systems integrators and managed services providers. Identifying these and other partners, and negotiating and documenting relationships with them, require significant time and resources. Our agreements with partners are

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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 third parties, including our partners, to favor their solutions or to prevent or reduce subscriptions to our service either by disrupting our relationship with existing customers or by limiting our ability to win new customers. 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. Even if we are successful, we cannot assure you that these relationships will result in greater customer usage of our service or increased revenues.

If a customer is not satisfied with the quality of work performed by us or 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 with our professional services could damage our ability to obtain additional revenues from that customer or prospective customers.

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

Because we sell our service 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 25%, 29% and 29% of our total revenues for fiscal 2011, the six months ended December 31, 2011 and the nine months ended September 30, 2012, respectively, 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. The risks and challenges inherent with international sales include:

localization of our service, including translation into foreign languages and associated expenses;

differing laws and business practices, which may favor local competitors;

longer sales cycles;

compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;

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;

regional data privacy laws that apply to the transmission of our customers' data across international borders;

foreign currency fluctuations and controls;

different pricing environments;

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difficulties in staffing and managing foreign operations;

different or lesser protection of our intellectual property;

longer accounts receivable payment cycles and other collection difficulties;

regional economic conditions; and

regional political conditions.

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

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We face exposure to foreign currency exchange rate fluctuations.

We conduct significant transactions, including intercompany transactions, in currencies other than the United States 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 foreign currencies relative to the United States dollar can affect our revenues and operating results due to transactional and translational remeasurement that is reflected in our earnings. 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.

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

Our overall performance depends in part on worldwide economic conditions, which may remain challenging for the foreseeable future. Global financial developments seemingly unrelated to us or the IT 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 service, 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.

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 and the use of the Internet as a commercial medium. 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 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.

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 expenses 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, the valuation of deferred tax assets and liabilities and changes in federal, state or international tax laws and accounting principles. Increases in our effective tax rate would reduce our profitability or in some cases increase our losses.

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In addition, we may be subject to income tax audits by many tax jurisdictions throughout the world, many of which have not established clear guidance on the tax treatment of SaaS-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.

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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 strong negative effect on us. Our business operations are subject to interruption by natural disasters, 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 service to our customers, and could decrease demand for our service. 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 earthquake or catastrophic event.

We are an emerging growth company, and any decision on our part to comply with certain reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act enacted in April 2012, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an emerging growth company for up to five years, although, if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of June 30 of any year starting with June 30, 2013, we could cease to be an emerging growth company as of the following December 31. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under Section 107(b) of the Jumpstart Our Business Startups Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We incur significant costs as a result of operating as a public company and our management has to devote substantial time to public company communications and compliance obligations.

As a public company and particularly after we cease to be an emerging growth company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act and other legislation and rules implemented by the Securities and Exchange Commission, or SEC, and the New York Stock Exchange impose various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance requirements. These burdens may increase as new legislation is passed and implemented, including any new requirements that the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 may impose on public companies. Moreover, these rules and regulations, along with compliance with accounting principles and regulatory interpretations of such principles, have increased and will continue to increase our legal, accounting and financial compliance costs and have made and will continue to make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial costs to maintain the same or similar coverage.

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These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or our board committees, or as executive officers.

If we do not remediate material weaknesses in our internal control over financial reporting or are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.

Prior to our initial public offering in June 2012, we were a private company and historically had limited accounting personnel to adequately execute our accounting processes and other supervisory resources with which to address our internal control over financial reporting. This lack of adequate accounting resources contributed to audit adjustments to our financial statements in the past.

In connection with our preparation of the financial statements for the year ended June 30, 2011 and the six months ended December 31, 2011, our independent registered public accounting firm identified control deficiencies in our internal control that constituted material weaknesses. A material weakness is defined under the standards issued by the Public Company Accounting Oversight Board as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected and corrected on a timely basis. The material weaknesses our independent registered public accounting firm identified related to the design and operation of policies and procedures for accounting and reporting control processes, performance of account review and analysis, the development and review of complex judgments and estimates, the preparation of the provision for income taxes and the identification, communication and accounting of significant contracts and agreements. These material weaknesses, which contributed to multiple audit adjustments, primarily resulted from our failure to maintain a sufficient number of personnel with an appropriate level of knowledge, experience and training in the application of U.S. generally accepted accounting principles, or GAAP.

We are in the process of implementing measures designed to improve our internal control over financial reporting to remediate these material weaknesses. During the six months ended December 31, 2011, we hired a new Chief Financial Officer, a new Vice President of Finance and several new finance and accounting managers which significantly increases our finance and accounting team's experience in GAAP and financial reporting for publicly traded companies. In September 2011, we engaged a third-party tax firm and in February 2012, we hired a Senior Manager of Internal Audit. In March 2012, we hired a Vice President of Tax to assist with the accounting for income taxes and review of complex tax accounting matters. In addition, we expect to retain consultants to advise us on making further improvements to our internal controls related to these accounting areas. We believe that these additional resources enable us to broaden the scope and quality of our internal review of underlying information related to financial reporting and to further enhance our financial review procedures, including both the accounting processes for income taxes and significant contracts and agreements.

We cannot assure you that the measures we have taken to date, or any measures we may take in the future, will be sufficient to remediate the material weaknesses in our internal control over financial reporting or to avoid potential future material weaknesses.

The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and disclosure controls and procedures quarterly. In particular, beginning with the year ending on December 31, 2013, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404(a) of the Sarbanes-Oxley Act. Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company. At such time, 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

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independent registered public accounting firm, that must be performed may reveal other material weaknesses or that the material weaknesses described above have not been fully remediated. If we do not remediate the material weaknesses described above, or if other 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 controls over financial reporting from our independent registered public accounting firm and we could be subject to investigations or sanctions by regulatory authorities, which would require additional financial and management resources, and the market price of our stock could decline.

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

We 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 software 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. 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.

Negotiating these transactions can be time-consuming, difficult and expensive, and our ability to close these transactions may often be subject to 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 software codes or business cultures;
and

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

Risks Relating to Ownership of Our Common Stock and this Offering

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

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. 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 \$41.77 through September 30, 2012. In addition, the trading prices of the securities of technology companies in general have been highly volatile, and the volatility in market price and

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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 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 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 service due to computer hardware, software or network problems, security breaches, or other man-made or natural disasters;

the economy as a whole, 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

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. 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 have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering, including for any of the purposes described in the section titled "Use of Proceeds," and you will not have the opportunity as part of your investment decision to assess whether the net proceeds are being used appropriately. Because of the number and variability of factors that will determine our use of the net proceeds from this offering, their ultimate use may vary substantially from their currently intended use. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities. These investments may not yield a favorable return to our stockholders.

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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, officers and principal stockholders beneficially own a significant percentage of our stock and are able to exert significant control over matters subject to stockholder approval.

As of September 30, 2012, our directors, officers and five percent or greater stockholders and their respective affiliates beneficially owned in the aggregate approximately 77% of our outstanding voting stock and, upon completion of this offering, that same group will hold in the aggregate approximately 68% of our outstanding voting stock (assuming no exercise of the underwriters' option to purchase additional shares), including approximately 35% controlled by persons affiliated with JMI Equity. Therefore, after this offering these stockholders will continue to have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders will be able to control elections of directors, amendments of our organizational documents, or 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.

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders following this offering could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur could depress the market price of our common stock and could make it more difficult for you to sell your common stock at a time and price that you deem appropriate. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

As a result of the lock-up agreements described in "Shares Eligible for Future Sale" and "Underwriting" and certain transfer restrictions under our insider trading policy, shares will be available for sale in the public market at various times as follows, subject to the provisions of Rules 144 and 701 under the Securities Act:

27,397,500 shares sold in this offering and in our initial public offering will be immediately available for sale in the public market;

5,008,688 shares will become eligible for sale in the public market beginning on December 26, 2012 (the date on which the lock-up agreements related to our initial public offering expire);

42,688,326 shares subject to transfer restrictions under our insider trading policy will be eligible for sale in the public market beginning on the second trading day following our earnings release for the year ended December 31, 2012, including shares held by our affiliates, assuming the shares are held by persons subject to our insider trading policy, such as directors, officers or employees; provided, if the holder of any shares ceases to be employed by us, such holder's shares will become eligible for sale upon the expiration of the relevant lock-up agreement;

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47,476,072 shares will become eligible for sale in the public market beginning on the 91st day following the date of this prospectus upon expiration of lock-up agreements entered into in connection with this offering; and

2,450,980 shares will become eligible for sale in the public market beginning on February 21, 2013, all of which will be freely tradable under Rule 144.

Certain holders of shares of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act of 1933, as amended, or the Securities Act, subject to the lock-up arrangements

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described in Shares Eligible for Future Sale and Underwriting. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

Provisions in our restated certificate of incorporation and restated bylaws and Delaware law 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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements, other than statements of historical fact, contained in this prospectus, including statements regarding our future results of operations, financial position and cash flows, our business strategy and plans and our objectives for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, would, should, intend and expect and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of these forward-looking statements after the date of this prospectus or to conform these statements to actual results or revised expectations.

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INDUSTRY AND MARKET DATA

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations, market position, market opportunity and market size, is based on information from various sources, including independent industry publications like those generated by Gartner, Inc. In presenting this information, we have also made assumptions based on such data and other similar sources and on our knowledge of, and our experience to date in, the markets for our service and related solutions. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. Although neither we nor the underwriters have independently verified the accuracy or completeness of any third-party information, we believe the market position, opportunity and market size information included in this prospectus is reliable and the conclusions contained in the third-party information are reasonable. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Risk Factors and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

The Gartner report, Forecast: Enterprise Software Markets, Worldwide, 2009-2016, 3Q12 Update, September, 2012, described herein, or the Gartner Report, represents data, research opinion or viewpoints published as part of a syndicated subscription service, by Gartner and are not representations of fact. The Gartner Report speaks as of its original publication date (and not as of the date of this prospectus) and the opinions expressed in the Gartner Report are subject to change without notice.

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We estimate that our net proceeds from the sale of the shares of common stock offered by us will be approximately \$43.3 million, based on the public offering price of \$28.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their option to purchase additional shares in full, we estimate that the net proceeds from this offering will be approximately \$49.9 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of common stock by the selling stockholders.

The principal purposes of this offering are to facilitate an orderly distribution of our shares by selling stockholders, increase our public float, and increase our financial flexibility. While we have no specific plans at this time, we may use some of the proceeds from this offering to make additions to and expand our data center operations, and to build out our office facilities. We intend to use the net proceeds to us from this offering for working capital and other general corporate purposes. Additionally, we may choose to expand our current business through acquisitions of, or investments in, other businesses, products or technologies, using cash or shares of our common stock. However, we have no commitments with respect to any such acquisitions or investments at this time.

Pending the use of proceeds from this offering, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities. Our management will have broad discretion in the application of the net proceeds from this offering and investors will be relying on the judgment of our management regarding the application of the proceeds.

MARKET PRICE OF COMMON STOCK

Our common stock has been listed on the New York Stock Exchange under the symbol **NOW** since June 29, 2012. Prior to that date, there was no public trading market for our common stock. Our initial public offering was priced at \$18.00 per share on June 28, 2012. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the New York Stock Exchange:

	Low	High
Year ending December 31, 2012		
Second Quarter (beginning June 29, 2012)	\$ 22.83	\$ 24.75
Third Quarter	\$ 22.62	\$ 41.77
Fourth Quarter (through November 14, 2012)	\$ 28.15	\$ 38.14

On November 14, 2012, the last reported sale price of our common stock as reported on the New York Stock Exchange was \$28.71 per share.

As of September 30, 2012, we had 200 holders of record of our common stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

DIVIDEND POLICY

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We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash, cash equivalents and short term investments, and our capitalization as of September 30, 2012:

on an actual basis; and

on an as adjusted basis to reflect the sale and issuance of shares of common stock in this offering by us, and the receipt of the net proceeds from our sale of 1,650,000 shares at the public offering price of \$28.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

The information below is illustrative only and our cash, cash equivalents and short term investments and our capitalization following the closing of this offering will be adjusted based on the actual public offering price and other terms of this offering determined at pricing. You should read the information in this table together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	As of September 30, 2012	
	Actual	As Adjusted
	(in thousands)	
Cash, cash equivalents and short term investments	\$ 256,461	\$ 299,713
Stockholders' equity:		
Preferred stock, \$0.001 par value: 10,000,000 shares authorized, no shares issued or outstanding, actual and as adjusted	\$	\$
Common stock, \$0.001 par value: 600,000,000 shares authorized, 123,371,566 shares issued and outstanding, actual; 600,000,000 shares authorized and 125,021,566 shares issued and outstanding, as adjusted	123	125
Additional paid-in capital	286,376	329,835
Accumulated other comprehensive income	326	326
Accumulated deficit	(95,557)	(95,766)
Total stockholders' equity	191,268	234,520
Total capitalization	\$ 191,268	\$ 234,520

The number of shares of our common stock to be outstanding after this offering is based on 123,371,566 shares of common stock outstanding as of September 30, 2012, and excludes:

37,279,442 shares of common stock issuable upon the exercise of outstanding options with a weighted-average exercise price of \$4.48 per share and 1,134,851 shares of common stock issuable pursuant to outstanding restricted stock units;

11,635,301 additional shares of common stock reserved for future issuance under our 2012 Equity Incentive Plan; and

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5,000,000 shares of common stock reserved for future issuance under our 2012 Employee Stock Purchase Plan.

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The following selected consolidated financial data should be read together with our consolidated financial statements and accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes. Our historical results are not necessarily indicative of our future results.

The selected consolidated statements of operations data for fiscal 2009, 2010 and 2011 and for the six months ended December 31, 2011 and the selected consolidated balance sheet data as of June 30, 2010 and 2011 and as of December 31, 2011 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated balance sheet data as of June 30, 2009 is derived from our audited consolidated financial statements which are not included in this prospectus. The consolidated statement of operations data for the six months ended December 31, 2010 and the nine months ended September 30, 2011 and 2012, and the unaudited selected consolidated balance sheet data as of September 30, 2012 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of operations data for fiscal 2007 and 2008 and the consolidated balance sheet data as of June 30, 2007 and 2008 are derived from our unaudited consolidated financial statements which are not included in this prospectus. We have prepared the unaudited financial information on the same basis as the audited consolidated financial statements and have included, in our opinion, all adjustments, consisting only of normal recurring adjustments, we consider necessary for a fair statement of the financial information set forth in those statements.

	2007	Fiscal Year Ended June 30,			2011	Six Months Ended December 31,		Nine Months Ended September 30,		
		2008	2009	2010		2010	2011	2011	2012	
		(in thousands, except share and per share data)								
Consolidated Statements of Operations Data:										
Revenues ⁽¹⁾ :										
Subscription	\$ 1,834	\$ 8,644	\$ 17,841	\$ 40,078	\$ 79,191	\$ 33,191	\$ 64,886	\$ 76,331	\$ 141,640	
Professional services and other	29	137	1,474	3,251	13,450	4,753	8,489	12,563	26,910	
Total revenues	1,863	8,781	19,315	43,329	92,641	37,944	73,375	88,894	168,550	
Cost of revenues ⁽²⁾⁽³⁾ :										
Subscription	397	1,838	3,140	6,378	15,311	6,096	15,073	15,538	43,182	
Professional services and other	253	2,717	4,711	9,812	16,264	6,778	12,850	15,095	28,519	
Total cost of revenues	650	4,555	7,851	16,190	31,575	12,874	27,923	30,633	71,701	
Gross profit	1,213	4,226	11,464	27,139	61,066	25,070	45,452	58,261	96,849	
Operating expenses ⁽²⁾⁽³⁾ :										
Sales and marketing	2,314	6,142	8,499	19,334	34,123	13,728	32,501	34,375	74,356	
Research and development	2,682	2,098	2,433	7,194	7,004	2,758	7,030	7,003	26,098	
General and administrative	356	1,854	6,363	28,810	9,379	3,417	10,084	10,471	24,441	

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Total operating expenses	5,352	10,094	17,295	55,338	50,506	19,903	49,615	51,849	124,895
Income (loss) from operations	(4,139)	(5,868)	(5,831)	(28,199)	10,560	5,167	(4,163)	6,412	(28,046)
Interest and other income (expense), net	170	10	(27)	(1,226)	606	289	(1,446)	(412)	1,148
Income (loss) before provision for income taxes	(3,969)	(5,858)	(5,858)	(29,425)	11,166	5,456	(5,609)	6,000	(26,898)
Provision for income taxes	2	23	48	280	1,336	653	1,075	852	519
Net income (loss) \$	(3,971) \$	(5,881) \$	(5,906) \$	(29,705) \$	9,830 \$	4,803 \$	(6,684) \$	5,148 \$	(27,417)
Net income (loss) per share attributable to common stockholders ⁽⁴⁾ :									
Basic	\$ (0.11) \$	(0.16) \$	(0.17) \$	(1.31) \$	0.09 \$	0.04 \$	(0.33) \$	0.05 \$	(0.49)
Diluted	\$ (0.11) \$	(0.16) \$	(0.17) \$	(1.31) \$	0.08 \$	0.04 \$	(0.33) \$	0.04 \$	(0.49)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders ⁽⁴⁾ :									
Basic	40,000,000	40,115,383	39,039,066	23,157,576	18,163,977	17,156,445	21,104,219	19,695,440	57,089,411
Diluted	40,000,000	40,115,383	39,039,066	23,157,576	28,095,486	27,622,357	21,104,219	30,612,539	57,089,411

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- (1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the nine months ended September 30, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.
- (2) Stock-based compensation included in the statements of operations data above was as follows:

	2007	Fiscal Year Ended June 30,			2011	Six Months Ended December 31,		Nine Months Ended September 30,	
		2008	2009	2010		2010	2011	2011	2012
		(in thousands)							
Cost of revenues:									
Subscription	\$	\$ 3	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 524	\$ 2,514
Professional services and other	1	5	11	28	117	37	193	151	964
Sales and marketing	8	22	45	277	1,004	431	2,010	1,373	6,852
Research and development	3	12	50	90	468	207	704	524	4,121
General and administrative	5	14	15	102	817	221	2,056	1,652	4,137

- (3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.
- (4) Please refer to Note 13 to our consolidated financial statements for an explanation of the method used to calculate the historical net income (loss) per share attributable to common stockholders and the number of shares used in the computation of the per share amounts.

	2007	2008	As of June 30,		2010	2011	As of December 31,		As of September 30,
			2009	2010			2011	2012	
	(in thousands)								
Consolidated Balance Sheet Data:									
Cash and cash equivalents	\$ 3,619	\$ 4,772	\$ 7,788	\$ 29,402	\$ 59,853	\$ 68,088	\$ 116,976		
Working capital, excluding deferred revenue	5,647	5,401	10,090	33,080	75,801	95,033	294,159		
Total assets	6,341	7,725	15,327	51,369	108,746	156,323	382,204		
Deferred revenue, current and non-current portion	4,207	9,867	16,778	40,731	74,646	104,636	147,946		
Convertible preferred stock	8,187	8,810	15,342	67,227	67,860	68,172			
Total stockholders' equity (deficit)	(6,650)	(13,112)	(21,690)	(71,262)	(58,381)	(57,426)	191,268		

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should read the Risk Factors section of this prospectus for a discussion of important 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 contained in the following discussion and analysis.

Overview

ServiceNow is a leading provider of cloud-based services to automate enterprise IT operations. Our service includes a suite of applications built on our proprietary platform that automates workflow and integrates related business processes. We focus on transforming enterprise IT by automating and standardizing business processes and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, to lower operational costs and to enhance efficiency. Additionally, our customers use our extensible platform to build custom applications for automating activities unique to their business requirements.

We offer our service under a SaaS business model. Our subscription fee includes the use of our service and our technical support and management of the hosting infrastructure. We provide a scaled pricing model based on the number of users, in which the subscription price per user decreases as the number of users increases. We generally bill our customers annually in advance. 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.

Many customers initially subscribe to our service to solve a specific and immediate problem. Once their problem is solved, many of our customers deploy additional applications as they become more familiar with our service and apply it to new IT processes. In addition, some customers adopt our platform to build applications that automate various processes for business uses outside of IT such as human resources, facilities and quality control management. A majority of our revenues come from large global enterprise customers. Our total customers grew 58% from 852 as of September 30, 2011 to 1,346 as of September 30, 2012.

We were founded in 2004 and entered into our first commercial contract in 2005. To date, we have funded our business primarily with cash flows from operations. Additionally, we raised net proceeds of \$173.3 million in our June 2012 initial public offering after deducting underwriting discounts and commissions and before deducting expenses in connection with the offering of \$3.5 million. We continue to invest in the development of our service, infrastructure and sales and marketing to drive long-term growth. In 2011, we significantly changed our executive management team. We hired a new Chief Executive Officer in May 2011, and our founder became Chief Product Officer. We subsequently hired additional key executives across our entire organization including our Chief Financial Officer, Chief Technology Officer, Senior Vice President Worldwide Sales and Services, Senior Vice President Engineering, Vice President Human Resources, Vice President Marketing and Vice President Product Management. We increased our overall employee headcount from 491 as of September 30, 2011 to 963 as of September 30, 2012.

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We have achieved significant revenue growth in recent periods. For the fiscal years ended June 30, 2010 and 2011, our revenues grew 114% from \$43.3 million to \$92.6 million. We incurred a net loss of \$29.7 million and generated net income of \$9.8 million for the fiscal years ended June 30, 2010 and 2011, respectively. For the six

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months ended December 31, 2010 and 2011, our revenues grew 93% from \$37.9 million to \$73.4 million. We generated net income of \$4.8 million and incurred a net loss of \$6.7 million for the six months ended December 31, 2010 and 2011, respectively. For the nine months ended September 30, 2011 and 2012, our revenues grew 90% from \$88.9 million to \$168.6 million. We generated net income of \$5.1 million and incurred a net loss of \$27.4 million for the nine months ended September 30, 2011 and 2012, respectively.

Fiscal Year End

On February 3, 2012, our board of directors approved a change to our fiscal year-end from June 30 to December 31. Included in this prospectus is the transition period for the six months ended December 31, 2011. Accordingly, we present the consolidated balance sheets as of June 30, 2010 and 2011 and December 31, 2011, and the consolidated statements of comprehensive income (loss), changes in convertible preferred stock and stockholders' deficit, and cash flows for the fiscal years ended June 30, 2009, 2010 and 2011 and the six months ended December 31, 2010 and 2011. References to fiscal 2009, fiscal 2010 and fiscal 2011 still refer to the fiscal years ended June 30, 2009, 2010 and 2011, respectively.

Key Factors Affecting Our Performance

Total customers. We believe total customers 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, as well as to pursue additional partnerships within our indirect sales channel. We generally define a customer as an entity with an active service contract as of the measurement date. In situations where there is a single contract that applies to entities with multiple subsidiaries or divisions, universities, or governmental organizations, each entity that has contracted for a separate production instance of our service is counted as a separate customer. Our total customers were 281, 460 and 771 as of June 30, 2009, 2010 and 2011, respectively, 602 and 974 as of December 31, 2010 and 2011, respectively and 852 and 1,346 as of September 30, 2011 and 2012, respectively.

Investment in growth. We have aggressively invested, and intend to continue to invest, in expanding our operations, increasing our headcount and developing technology to support our growth. We expect our total operating expenses to increase in the foreseeable future, particularly as we continue to expand our sales operations and cloud-based infrastructure. We continue to invest in our sales and marketing organization to drive additional revenues and support the growth of our customer base. Any investments we make in our sales and marketing organization will occur in advance of experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas.

Renewal rate. We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the annual contract value from customers that are due for renewal in the period and did not renew, divided by the total annual contract value from all customers due for renewal during the period. Annual contract value is equal to the first twelve months of expected subscription revenues under a contract. We believe our renewal rate is an important metric to measure the long-term value of customer agreements and our ability to retain our customers. Our renewal rate was 94%, 95%, and 97% in fiscal 2009, 2010 and 2011, respectively, 99% and 97% in the six months ended December 31, 2010 and 2011, respectively, and 97% and 96% in the nine months ended September 30, 2011 and 2012, respectively.

Upsells. In order for us to continue to grow our business, it is important to generate additional revenue from existing customers. We believe there is significant opportunity to increase the number of subscriptions sold to current customers as customers become more familiar with our platform and adopt our applications to address additional business use cases. Our increase in subscriptions is driven by the increased number of users accessing our suite of on-demand applications, as well as our other enabling technologies, Discovery and Runbook Automation, that are separately priced on a per server basis. We believe our ability to upsell is a key factor affecting our ability to further penetrate our existing

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customer base. We monitor upsells by measuring the annual contract value of upsells signed in the period as a percentage of our total annual contract value of all contracts

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signed in the period. Upsells as a percentage of total annual contract value signed was 20%, 25% and 27% in fiscal 2009, 2010 and 2011, respectively, 25% and 28% in the six months ended December 31, 2010 and 2011, respectively, and 29% in both the nine months ended September 30, 2011 and 2012.

Investment in infrastructure. We have made and will continue to make substantial investments in new equipment to support growth at our data centers and provide enhanced levels of service to our customers. During the fourth quarter of 2012, we expect to complete our transition from a managed service hosting model to a co-location model and invest in enhancements to our cloud architecture in our co-location data centers. Through the end of 2012, we will continue to incur double rent, accelerated depreciation for certain assets and additional co-location infrastructure investments. Beginning in the first quarter of 2013, we expect to no longer incur costs related to the managed service data centers that we are exiting. During 2013, we will continue to invest in enhancements to our cloud architecture, which are designed to provide our customers with enhanced scalability, data reliability and availability, including the purchase of additional networking infrastructure. We are also evaluating the expansion of our data center locations to address additional geographic markets, which will result in additional investments to our infrastructure if pursued. In addition, we will continue to enter into new office facility leases in the future to accommodate our projected headcount growth at various locations around the world. These new leases may require investments in leasehold improvements, as well as furniture and equipment to support our employees. If we add to our headcount at a faster rate than anticipated, we may incur substantial costs in terminating leases to enter into new leases for larger space.

Professional services model. We believe our investment in professional services facilitates the adoption of our subscription service. As a result, our sales efforts have been focused primarily on our subscription service, rather than the profitability of our professional services business. Historically, our pricing for professional services was predominantly on a fixed-fee basis and the cost of the time and materials incurred to complete these services was often greater than the amount charged to the customer. These factors contributed to our negative gross profit percentages from professional services of (220)%, (202)% and (21)% for fiscal 2009, 2010 and 2011, respectively, (43)% and (51)% for the six months ended December 31, 2010 and 2011, respectively, and (20)% and (6)% for the nine months ended September 30, 2011 and 2012, respectively. The improvement in gross profit percentages was due in part to the adoption of new revenue recognition accounting guidance commencing on July 1, 2010. In addition, in December 2011, we began shifting our pricing model to a time-and-materials basis and pricing our services predominantly based on the anticipated cost of those services.

Platform adoption. Our service includes access to our suite of applications, as well as access to our platform to create customer-built extensions to our suite of applications. Customers may also purchase the use of the platform to develop custom applications. Though in the near term we expect our revenue growth to be primarily driven by the pace of adoption and penetration of our suite of applications, we are investing resources to enhance the development capabilities of our platform. We believe the extensibility and simplicity of our platform is resulting in the broad use of our platform by our customers to create extensions of our applications or custom applications, and will enhance our ability to acquire new customers, increase upsells and sustain high renewal rates.

Components of Results of Operations

Revenues

Subscription revenues. Subscription revenues are primarily comprised of fees which give customers access to our suite of on-demand applications, as well as access to our platform to build custom applications. Pricing includes multiple instances, hosting and support services, data backup and disaster recovery services, as well as future upgrades offered during the subscription period. In addition, we offer two separately priced enabling technologies, Discovery and Runbook Automation. We typically invoice our customers for subscription fees in annual increments upon initiation of the initial contract or subsequent renewal. Our average initial contract term is approximately 30 months. Our contracts are generally non-cancelable, though customers can terminate for breach if we materially fail to perform.

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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. In addition, in some cases, we pay referral fees to third parties typically ranging from 10% to 20% of the first year's annual contract value. These fees are included 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. Other revenues include customer training and attendance and sponsorship fees for our Knowledge conferences. Historically, our pricing for professional services was predominantly on a fixed-fee basis. However, in December 2011, we began shifting our pricing model to a time-and-materials basis. Going forward, we anticipate the majority of our new business will be priced on a time-and-materials basis. Most of our professional services engagements span four to eight months. Historically, we billed for our fixed price professional services in two installments, with the first installment due up front and the second installment due at either a specified future date (usually approximately three months from the contract start date) or upon completion of the services. In December 2011, we changed these billing practices to bill for our fixed price professional services in installments based on milestones related to the completion of specified projects or specified dates. Our time-and-materials professional services are generally billed monthly in arrears based on actual hours and expenses incurred. Typical payment terms provide our customers pay us within 30 days of invoice.

Prior to fiscal 2011, we recorded revenues from our professional services over a period commensurate with our subscription service contracts. However, the cost associated with our professional services engagements was recorded as the services were delivered, resulting in lower gross profit percentages in fiscal 2009 and 2010. On July 1, 2010, we adopted new revenue recognition accounting guidance on a prospective basis that enabled us to separately allocate value for our multiple element arrangements between our subscription revenues and professional services revenues, based on the best estimate of selling price. As a result, professional services revenues are recognized as the services are delivered, which is substantially the same period as the associated costs are incurred. This shift resulted in an increase to professional services and other revenues of \$5.5 million for fiscal 2011. Refer to *Critical Accounting Policies and Significant Judgments and Estimates* below for further discussion of our revenue recognition accounting policy.

Backlog. Backlog represents future amounts to be invoiced under our agreements. As of December 31, 2011 and September 30, 2012, we had backlog of approximately \$210 million and \$325 million, respectively. We expect backlog will change from period to period for several reasons, including the timing and duration of customer subscription and professional services agreements, varying billing cycles of subscription agreements, and the timing of customer renewals.

Overhead Allocation

Overhead associated with benefits, facilities, IT costs and depreciation, excluding depreciation related to our cloud-based infrastructure, is allocated to our cost of revenues and operating expenses based on headcount.

Cost of Revenues

Subscription cost of revenues. Cost of subscription revenues primarily consists of expenses related to hosting our service and providing support to our customers. These expenses are comprised of data center capacity costs; personnel and related costs directly associated with our cloud infrastructure and customer support, including salaries, benefits, bonuses and stock-based compensation; and allocated overhead.

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Professional services and other cost of revenues. Cost of professional services and other revenues consists primarily of personnel and 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.

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Professional services associated with the implementation and configuration of our subscription service are performed directly by our services team, as well as by contracted third-party vendors. Fees paid up-front to our third-party vendors are deferred and amortized to cost of revenues as the professional services are delivered. Fees owed to our third-party vendors are accrued over the same requisite service period. Cost of revenues associated with our professional services engagements contracted with third-party vendors as a percentage of professional services and other revenues was 52%, 135% and 54% for fiscal 2009, 2010 and 2011, respectively, 70% and 64% for the six months ended December 31, 2010 and 2011, respectively, and 52% and 27% for the nine months ended September 30, 2011 and 2012, respectively.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel and related costs directly associated with our sales and marketing staff, including salaries, benefits, bonuses, commissions and stock-based compensation. Other costs included in this expense are third-party referral fees, marketing and promotional events, including our Knowledge conferences, online marketing, product marketing and allocated overhead.

Research and Development Expenses

Research and development expenses consist primarily of personnel and related costs 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 primarily consist of personnel and related costs for our executive, finance, legal, human resources and administrative personnel, including salaries, benefits, bonuses and stock-based compensation; 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 deferred tax assets as of September 30, 2012. We consider all available evidence, both positive and negative, in assessing the extent to which a valuation allowance should be applied against our deferred tax assets.

Table of Contents**Results of Operations**

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

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Nine Months Ended September 30,	
	2009	2010	2011	2010	2011	2011	2012
	(in thousands)						
Revenues⁽¹⁾:							
Subscription	\$ 17,841	\$ 40,078	\$ 79,191	\$ 33,191	\$ 64,886	\$ 76,331	\$ 141,640
Professional services and other	1,474	3,251	13,450	4,753	8,489	12,563	26,910
Total revenues	19,315	43,329	92,641	37,944	73,375	88,894	168,550
Cost of revenues⁽²⁾⁽³⁾:							
Subscription	3,140	6,378	15,311	6,096	15,073	15,538	43,182
Professional services and other	4,711	9,812	16,264	6,778	12,850	15,095	28,519
Total cost of revenues	7,851	16,190	31,575	12,874	27,923	30,633	71,701
Gross profit	11,464	27,139	61,066	25,070	45,452	58,261	96,849
Operating expenses⁽²⁾⁽³⁾:							
Sales and marketing	8,499	19,334	34,123	13,728	32,501	34,375	74,356
Research and development	2,433	7,194	7,004	2,758	7,030	7,003	26,098
General and administrative	6,363	28,810	9,379	3,417	10,084	10,471	24,441
Total operating expenses	17,295	55,338	50,506	19,903	49,615	51,849	124,895
Income (loss) from operations	(5,831)	(28,199)	10,560	5,167	(4,163)	6,412	(28,046)
Interest and other income (expense), net	(27)	(1,226)	606	289	(1,446)	(412)	1,148
Income (loss) before provision for income taxes	(5,858)	(29,425)	11,166	5,456	(5,609)	6,000	(26,898)
Provision for income taxes	48	280	1,336	653	1,075	852	519
Net income (loss)	\$ (5,906)	\$ (29,705)	\$ 9,830	\$ 4,803	\$ (6,684)	\$ 5,148	\$ (27,417)

(1) Revenues for fiscal 2011, the six months ended December 31, 2010 and 2011 and the nine months ended September 30, 2011 and 2012 reflect the prospective adoption of new revenue accounting guidance commencing on July 1, 2010. As a result of this guidance, we separately allocate value for multiple element contracts between our subscription revenues and professional services revenues based on the best estimate of selling price. Additionally, we recognize professional services revenues as the services are delivered. Please refer to Note 2 to our consolidated financial statements for further discussion of our revenue recognition policies.

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

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Nine Months Ended September 30,	
	2009	2010	2011	2010	2011	2011	2012
	(in thousands)						

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Cost of revenues:							
Subscription	\$ 6	\$ 48	\$ 548	\$ 225	\$ 674	\$ 524	\$ 2,514
Professional services and other	11	28	117	37	193	151	964
Sales and marketing	45	277	1,004	431	2,010	1,373	6,852
Research and development	50	90	468	207	704	524	4,121
General and administrative	15	102	817	221	2,056	1,652	4,137

(footnotes continue on next page)

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- (3) Operating expenses for fiscal 2009 reflect compensation expense of \$3.8 million related to the stock settlement of an outstanding promissory note in connection with our sale and issuance of Series C preferred stock. Cost of revenues and operating expenses for fiscal 2010 reflect compensation expense of \$0.7 million and \$30.1 million, respectively, related to the repurchase of shares from eligible stockholders in connection with our sale and issuance of Series D preferred stock.

	Fiscal Year Ended June 30,			Six Months Ended December 31,		Nine Months Ended September 30,	
	2009	2010	2011	2010	2011	2011	2012
	(as a percentage of revenues)						
Revenues:							
Subscription	92%	92%	85%	87%	88%	86%	84%
Professional services and other	8	8	15	13	12	14	16
Total revenues	100	100	100	100	100	100	100
Cost of revenues:							
Subscription	16	15	16	16	20	17	26
Professional services and other	25	22	18	18	18	17	17
Total cost of revenues	41	37	34	34	38	34	43
Gross profit	59	63	66	66	62	66	57
Operating expenses:							
Sales and marketing	44	45	37	36	44	39	44
Research and development	12	17	8	7	10	8	15
General and administrative	33	66	10	9	14	12	15
Total operating expenses	89	128	55	52	68	59	74
Income (loss) from operations	(30)	(65)	11	14	(6)	7	(17)
Interest and other income (expense), net		(3)	1	1	(2)		1
Income (loss) before provision for income taxes	(30)	(68)	12	15	(8)	7	(16)
Provision for income taxes	1	1	1	2	1	1	
Net income (loss)	(31)%	(69)%	11%	13%	(9)%	6%	(16)%

	Fiscal Year Ended June 30,	Six Months Ended December 31,	Nine Months Ended September 30,
	2009	2010	2011