

CATALYST PHARMACEUTICAL PARTNERS, INC.

Form POS AM

December 03, 2013

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As filed with the Securities and Exchange Commission on December 3, 2013

Registration No. 333-170945

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 3

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

CATALYST PHARMACEUTICAL PARTNERS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction	2834 (Primary Standard Industrial	76-0837053 (I.R.S. Employer
of Incorporation or Organization)	Classification Code Number) 355 Alhambra Circle	Identification Number)

Suite 1500

Coral Gables, Florida 33134

(305) 529-2522

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Patrick J. McEnany

Catalyst Pharmaceutical Partners, Inc.

355 Alhambra Circle, Suite 1500

Coral Gables, Florida 33134

(305) 529-2522

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:

Philip B. Schwartz, Esq.

Andrew E. Schwartz, Esq.

Akerman LLP

350 East Las Olas Boulevard

Suite 1600

Fort Lauderdale, Florida 33301

Tel: (954) 463-2700

Fax: (305) 349-4833

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

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EXPLANATORY NOTE

On December 15, 2010, the Company's Registration Statement on Form S-3 (Registration No. 333-170945), registering for sale \$30,000,000 of the Company's securities (the Registration Statement), became effective. On September 4, 2013, the Company registered an additional \$2,612,336 of securities under the Registration Statement on a Registration Statement on Form S-3MEF (Registration No. 333-190996). This Post-Effective Amendment No. 3 to Registration Statement on Form S-3 (this Post-Effective Amendment No. 3) is filed to report that, except as set forth below, all securities registered under the Registration Statement have been sold.

This Post-Effective Amendment No. 3 is being filed to continue the registration of the shares of common stock issuable from time to time upon the exercise of the common stock purchase warrants that were issued to purchasers in connection with sales of common shares and warrants previously completed under the Registration Statement. As of the date of this Post-Effective Amendment No. 3, common stock purchase warrants to purchase an additional 2,454,870 shares of common stock that were sold in offerings completed under the Registration Statement remain outstanding.

All fees pursuant to this Registration Statement have previously been paid and no fees are due upon the filing of this Post-Effective Amendment No. 3.

The Registrant hereby amends this Post-Effective Amendment No. 3 on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Post-Effective Amendment No. 3 shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Post-Effective Amendment No. 3 shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the Registration Statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 3, 2013

Preliminary Prospectus

2,454,870 Shares of Common Stock Issuable

Upon the Exercise of Outstanding Warrants

We are offering up to 2,454,870 shares of our common stock (Shares) upon the exercise of currently outstanding common stock purchase warrants (the Warrants). The Shares and Warrants relate to offerings previously conducted under this Registration Statement, as follows: (i) 1,254,870 shares of our common stock that are issuable for a purchase price of \$1.30 per share from time to time upon the exercise of currently outstanding five-year warrants that we issued in a registered direct offering completed in October 2011, and (ii) 1,200,000 shares of our common stock that are issuable for a purchase price of \$2.08 per share from time to time upon the exercise of currently outstanding five-year warrants that were issued in a registered direct offering completed in August 2012. No securities are being offered pursuant to this prospectus other than the shares of our common stock that will be issued upon the exercise of those currently outstanding common stock purchase warrants.

Our common stock is listed on the Nasdaq Capital Market under the symbol CPRX . On December 2, 2013, the last reported price per share of our common stock as reported on the Nasdaq Capital Market was \$1.87 per share.

Our business and investing in our securities involves significant risks. You should carefully read and consider the Risk Factors beginning on page 4 of this prospectus before investing.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation

to the contrary is a criminal offense.

The date of this prospectus is _____, 2013

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC. As permitted by the rules and regulations of the SEC, the registration statement filed by us includes additional information not contained in this prospectus. You may read the registration statement and the other reports we file with the SEC at the SEC's website or its offices described below under the heading "Where You Can Find Additional Information."

You should rely only on the information that is contained in this prospectus or that is incorporated by reference into this prospectus. We have not authorized anyone to provide you with information that is in addition to or different from that contained in, or incorporated by reference into, this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it.

The shares of common stock offered by this prospectus are not being offered in any jurisdiction where the offer or sale of such common stock is not permitted. You should not assume that the information contained in, or incorporated by reference into, this prospectus is accurate as of any date other than the date of this prospectus or, in the case of the documents incorporated by reference, the date of such documents, regardless of the date of delivery of this prospectus or any sale of the common stock offered by this prospectus. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus; it does not contain all of the information you should consider before investing. You should carefully read the entire prospectus before making an investment decision.

This prospectus includes trademarks, service marks or trade names owned by us or other companies. All trademarks, service marks or trade names included in this prospectus are the property of their respective owners.

Throughout this prospectus, the terms we , us , our and company refer to Catalyst Pharmaceutical Partners, Inc.

Our Business

We are a development-stage specialty pharmaceutical company focused on the development and commercialization of novel prescription drugs targeting rare (orphan) neuromuscular and neurological diseases and disorders. We have three pharmaceutical products in development:

Firdapse

In October 2012, we licensed the North American rights to Firdapse , a proprietary form of amifampridine phosphate, or chemically known as 3,4-diaminopyridine phosphate, from BioMarin Pharmaceutical Inc. (BioMarin). As part of our agreements with BioMarin, we have taken over the sponsorship of an ongoing Phase 3 clinical trial evaluating Firdapse for the treatment of Lambert-Eaton Myasthenic Syndrome, or LEMS, a rare and sometimes fatal autoimmune disease characterized by muscle weakness. We also hope to evaluate Firdapse for the treatment of other neuromuscular orphan indications such as Congenital Myasthenic Syndrome and Myasthenia Gravis. We have recently been granted breakthrough therapy designation by the U.S. Food & Drug Administration (FDA) for Firdapse™ for the treatment of LEMS.

Neither the chemical entity 3,4-diaminopyridine (3,4-DAP) nor its phosphate salt has ever been approved by the FDA for any indication. If we are the first pharmaceutical company to obtain approval for 3,4 diaminopyridine or its phosphate salt, we will be eligible to receive five years of marketing exclusivity with respect to the use of this product for any indication. Further, since Firdapse for the treatment of LEMS has previously been granted Orphan Drug Designation by the FDA, if we are the first company to obtain approval of 3,4-diaminopyridine or its phosphate salt, it would make us eligible to receive seven years of marketing exclusivity for this indication.

The Phase 3 trial is designed as a randomized double-blind, placebo-controlled discontinuation study followed by an open-label extension period in approximately 36-patients across 22 sites in the United States, Canada and Europe. We also expect to add at least 3 additional sites in the United States (U.S.), South America and Europe in the near future. Based on currently available information, we expect that we will complete enrollment in our trial around the end of the year and that we will report top-line results from the double-blind portion of this Phase 3 trial during the second quarter of 2014 (and, if the trial results are successful, we expect to submit a new drug application (NDA) to the FDA in the first half of 2015).

Further, an interim safety analysis was recently performed by the independent Data Monitoring Committee that is part of the routine oversight of the Phase 3 trial. Following this meeting, the committee recommended that we continue the trial as planned. This recommendation is based on the committee's review of unblinded safety and clinical data available from the on-going Phase 3 trial.

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CPP-115

We are in the early stages of developing CPP-115, a GABA aminotransferase inhibitor that, based on our pre-clinical studies to date, we believe is a more potent form of vigabatrin, but may have fewer side effects (e.g., visual field defects, or VFDs) than those associated with vigabatrin. We are hoping to develop CPP-115 for the treatment of epilepsy (initially infantile spasms) and for the treatment of other selected central neurological indications. CPP-115 has been granted Orphan Drug Designation by the FDA for the treatment of infantile spasms and Orphan Medicinal Product Designation in the European Union, or E.U., for West's syndrome (a form of infantile spasms). We plan to begin a multi-dose safety and tolerance study of CPP-115 during the first half of 2014.

CPP-109

For several years, we evaluated CPP-109 (our formulation of vigabatrin, another GABA aminotransferase inhibitor) for the treatment of cocaine addiction. However, CPP-109 recently failed to meet the primary and two key secondary endpoints in a Phase 2(b) trial for cocaine addiction. As a result, we are no longer focusing our efforts on evaluating CPP-109 for addiction. In that regard, on November 8, 2013, effective October 1, 2013, we terminated our license agreement with Brookhaven National Laboratories under which we had previously been licensed nine patents relating to the use of vigabatrin as a treatment of a wide variety of substance addictions.

An academic investigator proof-of-concept study evaluating the use of CPP-109 for the treatment of Tourette Syndrome is currently ongoing and, if the results of that study show evidence of reduced number of tics, we will likely seek to develop CPP-109 or CPP-115 (which has the same mechanism of action as CPP-109) for this indication. Based on currently available information, we expect to have top line results for this academic investigator proof-of-concept study during the first half of 2014.

Recently Filed Securities Class Action Lawsuits

In October and November 2013, three securities class action lawsuits were filed against us and certain of our executive officers and directors seeking unspecified damages in the U.S. District Court for the Southern District of Florida. The complaints purport to state a claim for violation of federal securities laws on behalf of a class of those who purchased our common stock between October 31, 2012 and October 18, 2013. In general, the complaints allege, among other things, that during the period between October 31, 2012 and October 18, 2013, we made alleged misrepresentations regarding the development of Firdapse. We expect that these lawsuits will be consolidated into a single class-action lawsuit. We believe that these lawsuits, which are at a very early stage, are without merit, and we intend to vigorously defend these lawsuits. While there can be no assurance, we do not expect these lawsuits to have a material adverse effect on us.

Company Information

Our principal executive offices are located at 355 Alhambra Circle, Suite 1500, Coral Gables, Florida 33134, and our telephone number at that address is (305) 529-2522.

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THE OFFERING

Securities being offered by us	2,454,870 shares of our common stock issuable upon the exercise of the Warrants.
Common stock to be outstanding after this offering if all of the warrants are exercised	56,587,807 shares
Use of proceeds	We intend to use the net proceeds from the exercise of the warrants for general corporate purposes. See <i>Use of Proceeds</i> for further information.
Risk Factors	See <i>Risk Factors</i> , as well as other information included in this prospectus, for a discussion of factors you should read and consider carefully before investing in our securities.
Trading Market	Our common stock is traded on the Nasdaq Capital Market under the symbol CPRX.

The number of shares of our common stock to be outstanding after this offering, if all of the warrants are exercised, as shown above is based on 56,587,807 shares outstanding as of December 3, 2013 (including: (i) 146,000 shares issued in October 2013 upon the exercise of outstanding common stock purchase warrants, and (ii) the 2,454,870 shares offered hereby) and excludes:

- 2,699,296 shares of our common stock subject to outstanding options under our 2006 Stock Incentive Plan having a weighted average exercise price of \$0.83 per share;
- 729,610 shares of our common stock subject to outstanding options outside of our 2006 Stock Incentive Plan having a weighted average exercise price of \$0.69 per share;
- 217,604 shares of our common stock that have been reserved for issuance in connection with our 2006 Stock Incentive Plan; and
- 2,393,750 shares of our common stock that have been reserved for issuance upon the exercise of outstanding common stock purchase warrants at an exercise price of \$1.04 per share.

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RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below as well as the other information in this prospectus before deciding to invest in or maintain your investment in our company. The risks described below are not intended to be an all-inclusive list of the potential risks relating to an investment in our securities. Any of the risk factors described below could significantly and adversely affect our business, prospects, financial condition and results of operations. Additional risks and uncertainties not currently known or that are currently considered to be immaterial may also materially and adversely affect our business. As a result, the trading price or value of our securities could be materially adversely affected and you may lose all or part of your investment.

Risks Related to Our Business

We are a development stage company. Our limited operating history makes it difficult to evaluate our future performance.

We are a development stage company and, as such, we have a limited operating history upon which you can evaluate our current business and our prospects. The likelihood of our future success must be viewed in light of the problems, expenses, difficulties, delays and complications often encountered in the operation of a business without revenues, especially in the pharmaceutical industry, where failures of companies are common. We are subject to the risks inherent in the ownership and operation of a development stage company, including availability of capital, regulatory setbacks and delays, fluctuations in expenses, competition and government regulation. If we fail to address these risks and uncertainties our business, results of operations, financial condition and prospects would be adversely affected.

We have no products currently available and we have never had any products available for commercial sale.

We have had no revenues from product sales to date, currently have no products available for commercial sale, and have never had any products available for commercial sale. We expect to incur losses at least until we are in a position to commercialize Firdapse, which may never occur. Our net loss was \$4,076,386 and \$10,799,938 for the year ended December 31, 2012 and nine months ended September 30, 2013, respectively, and as of September 30, 2013 we had a deficit accumulated during the development stage of \$52,978,941. We may never obtain approval of an NDA for any of our product candidates and we may never achieve profitability.

Our business will require additional capital.

Without considering the proceeds from this offering, our business will require additional capital to meet our product development objectives. Based on currently available information, we estimate that we have sufficient working capital to support our operations through the end of 2014. The expectations described above are based on current information available to us. If the cost of our ongoing studies are greater than we expect, our assumptions may not prove to be accurate. There can be no assurance as to the exact amount of the funding we will require or as to whether any such required funding will be available to us when it is required.

We plan to raise additional funds in the future through public or private equity offerings, debt financings, capital lease transactions, corporate collaborations, governmental research grants or cost sharing arrangements with the National Institute of Neurological Disorders and Stroke (NINDS) or other appropriate agencies that operate under the umbrella of the National Institutes of Health and/or other means. However, there is no assurance that any such grants will be made available, and if available, that we will qualify to receive any such grants. We may also seek to raise additional capital to fund additional product development efforts, even if we have sufficient funds for our planned operations.

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Any sale by us of additional equity or convertible debt securities could result in dilution to our stockholders. There can be no assurance that any required additional funding will be available to us at all or available on terms acceptable to us. Further, to the extent that we raise funds through collaborative arrangements, it may be necessary to relinquish some rights to our technologies or grant sublicenses on terms that are not favorable to us. If we are not able to secure funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs, which could have an adverse effect on our business.

If we are not the first to get approval for Firdapse for the treatment of LEMS, we may not be able to bring it to market.

In January of 2012, another pharmaceutical company began its own Phase 2 trial studying their own formulation of 3-4,DAP for the treatment of LEMS. While there can be no assurance we believe that Firdapse is further along in development and as a result we expect that we will be in a position to file an NDA first for 3-4,DAP and its phosphate salts. Under the Orphan Drug Act of 1983, the first pharmaceutical product to get approval for an indication receives the orphan exclusivity under the statute. If another pharmaceutical company is able to receive approval of an NDA for its formulation of 3-4,DAP for the treatment of LEMS before we are able to receive approval of Firdapse for the same indication, we would be barred from marketing Firdapse in the United States during the seven-year orphan exclusivity period, which would have a severe adverse effect on our results of operations. In addition, if another company were to receive five-year new chemical entity exclusivity for 3-4,DAP for any indication prior to approval of Firdapse, we would be barred from marketing Firdapse in the United States during this five-year exclusivity period.

The development of CPP-115 is at an early stage.

Our development of CPP-115 is at an early stage, and it is going to be several years before we are in a position to file an NDA for CPP-115, if our future clinical trials of this product are successful. Further, our ability to develop CPP-115 will be dependent on our having the resources to conduct the studies and trials that would be required. There can be no assurance that we will ever file an NDA for CPP-115 or commercialize CPP-115.

Our business is subject to substantial competition.

The biotechnology and pharmaceutical industries are highly competitive. Many of our competitors have substantially greater financial and other resources, larger research and development staffs and more experience developing products, obtaining FDA and other regulatory approval of products and manufacturing and marketing products than we have. We compete against pharmaceutical companies that are developing or currently marketing therapies that will compete with our product candidates. In addition, we compete against biotechnology companies, universities, government agencies, and other research institutions in the development of pharmaceutical products. While we believe that our product candidates will offer advantages over many of the currently available competing therapies, our business could be negatively impacted if our competitors' present or future offerings are more effective, safer or less expensive than ours, or more readily accepted by regulators, healthcare providers or third-party payers. For example, amifampridine, the active ingredient in Firdapse, has been available from compounding pharmacies for several years and will likely be available even if we are able to obtain FDA approval of Firdapse. Compounded amifampridine is expected to be substantially less expensive than Firdapse. The FDA Advisory Committee on Compounding, however, has previously issued a list of drugs

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which should not be compounded, and amifampridine was included on that list. Drugs that are not approved by FDA for the treatment of LEMS, such as dalfampridine, may nonetheless be prescribed by physicians for the treatment of LEMS. Further, if we are permitted to commence commercial sales of our product candidates, we may also compete with respect to manufacturing efficiency and marketing capabilities. For all of these reasons, we may not be able to compete successfully.

We face a risk of product liability claims and may not be able to obtain adequate insurance.

Our business exposes us to potential liability risks that may arise from the clinical testing, manufacture, and/or sale of our pharmaceutical products. Patients have received substantial damage awards in some jurisdictions against pharmaceutical companies based on claims for injuries allegedly caused by the use of pharmaceutical products used in clinical trials or after FDA approval. Liability claims may be expensive to defend and may result in large judgments against us. We currently carry liability insurance with an aggregate annual coverage limit of \$15,000,000 per claim and \$15,000,000 in the aggregate, with a deductible of \$10,000 per occurrence. Our insurance may not reimburse us for certain claims or the coverage may not be sufficient to cover claims made against us. We cannot predict all of the possible harms or side effects that may result from the use of our current product candidates, or any potential future products we may acquire and use in clinical trials or after FDA approval and, therefore, the amount of insurance coverage we currently hold may not be adequate to cover all liabilities we might incur. If we are sued for any injury allegedly caused by our products, our liability could exceed our ability to pay the liability. Whether or not we are ultimately successful in any adverse litigation, such litigation could consume substantial amounts of our financial and managerial resources, all of which could have a material adverse effect on our business, financial condition, results of operations, prospects and stock price.

The obligations incident to being a public company place significant demands on our management.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the SEC, including periodic reports, disclosures and more complex accounting rules. As directed by Section 404 of Sarbanes-Oxley, the SEC adopted rules requiring public companies to include a report of management on a company's internal control over financial reporting in their Annual Report on Form 10-K. Based on current rules, we are required to annually report under Section 404(a) of Sarbanes-Oxley regarding our management's assessment as to the effectiveness of our internal control over financial reporting. If we are unable to conclude that we have effective internal control over our financial reporting, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock.

Risks Related to the Development of Our Drug Candidates

Our product development efforts may fail.

Development of our pharmaceutical product candidates is subject to risks of failure. For example:

Our product candidates may be found to be ineffective or unsafe, or fail to receive necessary regulatory approvals;

Our product candidates may not be economical to market or take substantially longer to obtain necessary regulatory approvals than anticipated; or

Competitors may market equivalent or superior products.

As a result, our product development activities may not result in any safe, effective and commercially viable products, and we may not be able to commercialize our products successfully. For example, for several years, we evaluated CPP-109 (our formulation of

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vigabatrin) for the treatment of cocaine addiction. However, CPP-109 recently failed to meet the primary and two key secondary endpoints in a Phase 2(b) trial for cocaine addiction, and we are no longer pursuing the evaluation of CPP-109 for addiction. Further, our lead compound, Firdapse , is for a very rare condition for which there is no effective FDA-approved treatment. As such, the clinical development plan we are pursuing after consulting with FDA including the endpoint, protocol design, and statistical analysis plan, may not allow the FDA to conclude that our Phase 3 trial of Firdapse is adequate to establish the clinical benefit of the drug. In addition, FDA has indicated that additional data from published studies, and data from a patient registry, would be useful in establishing the safety of Firdapse but we may not be able to obtain that data in a form that is satisfactory to the FDA. Our failure to develop safe, effective, and/or commercially viable products would have a material adverse effect on our business, prospects, results of operations and financial condition.

Failure can occur at any stage of our product development efforts.

We will only obtain regulatory approval to commercialize our product candidates if we can demonstrate to the satisfaction of the FDA (or the equivalent foreign regulatory authorities) in adequate and well-controlled clinical studies and trials that the drug is safe and effective for its intended use and that it otherwise meets approval requirements. As we have experienced in the past, a failure of one or more pre-clinical or clinical trials or studies can occur at any stage of product development. We may experience numerous unforeseen events during, or as a result of, testing that could delay or prevent us from obtaining regulatory approval for, or commercializing our product candidates, including but not limited to:

regulators or Institutional Review Boards (IRBs) may not authorize us to commence a clinical trial or conduct a clinical trial at a prospective trial site;

conditions may be imposed upon us by the FDA regarding the scope or design of our clinical trials, or we may be required to resubmit our clinical trial protocols to IRBs for reinspection due to changes in the regulatory environment;

the number of subjects required for our clinical trials may be larger, patient enrollment may take longer, or patients may drop out of our clinical trials at a higher rate than we anticipate;

we may have to suspend or terminate one or more of our clinical trials if we, regulators, or IRBs determine that the participants are being subjected to unreasonable health risks;

our third-party contractors, clinical investigators or contractual collaborators may fail to comply with regulatory requirements or fail to meet their contractual obligations to us in a timely manner;

our tests may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional testing; and

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the costs of our pre-clinical and/or clinical trials may be greater than we anticipate.

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We rely on third parties to conduct our pre-clinical studies and clinical studies and trials, and if they do not perform their obligations to us we may not be able to obtain approval for our product candidates.

We do not have the ability to conduct our pre-clinical studies and clinical studies and trials independently. We rely on academic institutions, governmental agencies, and third-party contract research organizations to assist us in designing, managing, monitoring and otherwise carrying out our studies and trials. Accordingly, we do not have control over the timing or other aspects of our studies and trials. If these third parties do not successfully carry out their duties, our studies, trials and our business may be materially adversely affected. While we believe that there are numerous third parties that can assist us with our studies and trials, if the third parties with which we contract do not perform, our product development efforts would likely be delayed by any such change, and our efforts would likely be more expensive.

If we conduct studies with other parties, we may not have control over all decisions associated with that trial. To the extent that we disagree with the other party on such issues as study design, study timing and the like, it could adversely affect our drug development plans.

Although we intend to rely on third parties to manage the data from these studies and trials, we are responsible for confirming that each of our studies and trials is conducted in accordance with its general investigational plan and protocol. Moreover, the FDA and foreign regulatory agencies will require us to comply with applicable regulations and standards, including Good Laboratory Practice (GLP) and Good Clinical Practice (GCP), for conducting, recording and reporting the results of such studies and trials to assure that the data and the results are credible and accurate and that the human study and trial participants are adequately protected. Our reliance on third parties does not relieve us of these obligations and requirements, and we may fail to obtain regulatory approval for our product candidates if these requirements are not met.

We will need to develop marketing, distribution and production capabilities or relationships to be successful.

In order to generate sales of any products we may develop, we must either acquire or develop an internal marketing force with technical expertise and with supporting documentation capabilities, or make arrangements with third parties to perform these services for us. The acquisition and development of a marketing and distribution infrastructure will require substantial resources and compete for available resources with our drug development efforts. To the extent that we enter into marketing and distribution arrangements with third parties, our revenues will depend on the efforts of others. If we fail to enter into such agreements, or if we fail to develop our own marketing and distribution channels, we would experience delays in product sales and incur increased costs.

We have no in-house manufacturing capacity and, to the extent we are successful in completing the development of our product candidates, we will be obliged to rely on contract manufacturers. We cannot assure you that we will successfully manufacture any product we may develop, either independently or under manufacturing arrangements, if any, with third party manufacturers. Moreover, if any manufacturer should cease doing business with us or experience delays, shortages of supply or excessive demands on their capacity, we may not be able to obtain adequate quantities of product in a timely manner, or at all. Manufacturers, and in certain situations their suppliers, are required to comply with current NDA commitments and good manufacturing practices requirement enforced by the FDA, and similar requirements of other countries. The failure by a manufacturer to comply with these requirements could affect its ability to provide us with product.

Any manufacturing problem, natural disaster affecting manufacturing facilities, or the loss of a contract manufacturer could be disruptive to our operations and result in lost sales. Additionally, we will be reliant on third parties to supply the raw materials needed

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to manufacture our potential products. Any reliance on suppliers may involve several risks, including a potential inability to obtain critical materials and reduced control over production costs, delivery schedules, reliability and quality. Any unanticipated disruption to future contract manufacture caused by problems at suppliers could delay shipment of products, increase our cost of goods sold and result in lost sales. If our suppliers were to be unable to supply us with adequate supply of our product candidates, it could have a material adverse effect on our ability to commercialize our product candidates.

We may not be able to sufficiently scale-up manufacturing of our product candidates

To date, our product candidates have been manufactured in small quantities for pre-clinical studies and clinical trials. In order to conduct larger trials for a product candidate and for commercialization of the resulting drug product if that product candidate is approved for sale, we will need to manufacture in larger quantities. We may not be able to successfully increase the manufacturing capacity for any of our product candidates, whether in collaboration with third-party manufacturers or on our own, in a timely or cost-effective manner or at all. If a contract manufacturer makes improvements in the manufacturing process for our product candidates, we may not own, or may have to share, the intellectual property rights to those improvements. Significant scale-up of manufacturing may require additional validation studies, which are costly and which the FDA must review and approve. In addition, quality issues may arise during those scale-up activities because of the inherent properties of a product candidate itself or of a product candidate in combination with other components added during the manufacturing and packaging process, or during shipping and storage of the finished product or active pharmaceutical ingredients. If we are unable to successfully scale-up manufacture of any of our product candidates in sufficient quality and quantity, the development of that product candidate and regulatory approval or commercial launch for any resulting drug products may be delayed or there may be a shortage in supply, which could significantly harm our business.

We may encounter difficulties in managing our growth, which would adversely affect our results of operations.

If we are successful in obtaining approval to commercialize Firdapse or any of our other product candidates, we will need to significantly expand our operations, which could put significant strain on our management and our operational and financial resources. We currently have seven employees and conduct much of our operations through outsourcing arrangements. To manage future growth, we will need to hire, train, and manage additional employees. Concurrent with expanding our operational and marketing capabilities, we will also need to increase our product development activities. We may not be able to support, financially or otherwise, future growth, or hire, train, motivate, and manage the required personnel. Our failure to manage growth effectively could limit our ability to achieve our goals.

Our success in managing our growth will depend in part on the ability of our executive officers to continue to implement and improve our operational, management, information and financial control systems and to expand, train and manage our employee base, and particularly to expand, train and manage a specially-trained sales force to market our products. We may not be able to attract and retain personnel on acceptable terms given the intense competition for such personnel among biotechnology, pharmaceutical and healthcare companies, universities and non-profit research institutions. Our inability to manage growth effectively could cause our operating costs to grow at a faster pace than we currently anticipate, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

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Our commercial success depends on reimbursement from third-party and governmental insurers.

Sales of pharmaceutical products in the United States depend largely on reimbursement of patients' costs by private insurers, government health care programs including Medicare and Medicaid, and other organizations. These third-party payers control healthcare costs by limiting both coverage and the level of reimbursement for healthcare products. In particular, the rising costs of pharmaceutical products are a subject of considerable attention and debate. Third-party payers are increasingly altering reimbursement levels and challenging the price and cost-effectiveness of pharmaceutical products. The reimbursement status of newly approved pharmaceutical products in particular is generally uncertain. The levels at which government authorities and private health insurers reimburse physicians or patients for the price they pay for any products we may develop could affect the extent to which we are able to commercialize our products successfully.

Risks Related to Government Regulation

We have not received regulatory approval in the United States or any foreign jurisdiction for the commercial sale of any of our product candidates. The regulatory approval process is lengthy, and we may not be able to obtain all of the regulatory approvals required to manufacture and commercialize our product candidates.

We do not currently have any products that have been approved for commercialization. We will not be able to commercialize our products until we have obtained the requisite regulatory approvals from applicable governmental authorities. To obtain regulatory approval of a product candidate, we must demonstrate to the satisfaction of the applicable regulatory agency that such product candidate is safe and effective for its intended uses. The type and magnitude of the testing required for regulatory approval varies depending on the product candidate and the disease or condition for which it is being developed. In addition, in the U.S. we must show that the facilities used to manufacture our product candidate are in compliance with Current Good Manufacturing Processes (cGMP). We will also have to meet similar regulations in any foreign country where we may seek to commercialize our product candidates. In general, these requirements mandate that manufacturers follow elaborate design, testing, control, documentation and other quality assurance procedures throughout the entire manufacturing process. The process of obtaining regulatory approvals typically takes several years and requires the expenditure of substantial capital and other resources. Despite the time, expense and resources invested by us in the approval process, we may not be able to demonstrate that our product candidates are safe and effective, in which event we would not receive the regulatory approvals required to market them.

The FDA and other regulatory authorities generally approve products for particular indications. Our product candidates may not be approved for any or all of the indications that we request, which would limit the indications for which we can promote it and adversely impact our ability to generate revenues. We may be required to conduct costly, post-marketing follow-up studies if FDA requests additional information.

The FDA and other regulatory bodies must approve trade names for products. The FDA typically conducts a thorough review of a proposed trade name, including an evaluation of potential confusion with other trade names. We have not submitted a request for FDA approval of the trade name Firdapse. We may be required to submit an alternate trade name for FDA review, which could delay our ability to market the product.

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If our pre-clinical studies or our clinical studies and trials are unsuccessful or significantly delayed, our ability to commercialize our products will be impaired.

Before we can obtain regulatory approval for the sale of our product candidates, we may have to conduct, at our own expense, pre-clinical tests in animals in order to support the safety of our product candidates. Pre-clinical testing is expensive, difficult to design and implement, can take several years to complete and is uncertain as to outcome. Our pre-clinical tests may produce negative or inconclusive results, and on the basis of such results, we may decide, or regulators may require us, to halt ongoing clinical trials or conduct additional pre-clinical testing.

We are in the process of conducting a Phase 3 clinical trial for Firdapse and are currently planning further clinical trials for CPP-115. Even if the results of our clinical trials are promising, Firdapse may subsequently fail to meet the safety and efficacy standards required to obtain regulatory approvals. Future clinical trials for Firdapse or CPP-115 may not be successfully completed or may take longer than anticipated because of any number of factors, including potential delays in the start of the trial, an inability to recruit clinical trial participants at the expected rate, failure to demonstrate safety and efficacy, unforeseen safety issues, or unforeseen governmental or regulatory delays.

Any clinical trials we might develop and implement, may not be completed in a timely manner or at all. Our product candidates may not be found to be safe and effective, and may not be approved by regulatory authorities for the proposed indication. Further, regulatory authorities and IRBs that must approve and monitor the safety of each clinical study may suspend a clinical study at any time if the patients participating in such study are deemed to be exposed to any unacceptable health risk. We may also choose to suspend human clinical studies and trials if we become aware of any such risks. We might encounter problems in our clinical trials, including problems associated with Visual Field Defects (VFDs) or other side effects that will cause us, regulatory authorities, or IRBs to delay or suspend such trial or study.

In other countries where Firdapse, CPP-115 or any other product we develop or license may be marketed, we will also be subject to regulatory requirements governing human clinical studies, trials and marketing approval for drugs. The requirements governing the conduct of clinical studies, trials, product licensing, pricing and reimbursement varies widely from country to country.

We may face significant delays in our clinical studies and trials due to an inability to recruit patients for our clinical studies and trials or to retain patients in the clinical studies and trials we may perform.

We may encounter difficulties in our current and future clinical studies and trials recruiting patients, particularly since the conditions we are studying are rare conditions. We compete for study and trial subjects with others conducting clinical trials testing other treatments for the indications we are studying for our product candidates. Further, unrelated third parties and investigators in the academic community have expressed interest in testing our product candidates. If these third-party tests are unsuccessful, or if they show significant health risk to the test subjects, our development efforts may also be adversely affected.

If our third-party suppliers or contract manufacturers do not maintain appropriate standards of manufacturing in accordance with cGMP and other manufacturing regulations, our development and commercialization activities could suffer significant interruptions or delays.

We rely, and intend to continue to rely, on third-party suppliers and contract manufacturers to provide us with materials for our clinical trials and commercial-scale production of our products. These suppliers and manufacturers must continuously adhere to cGMP as well as any applicable corresponding manufacturing regulations outside of the U.S. In complying with these regulations, we

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and our third-party suppliers and contract manufacturers must expend significant time, money and effort in the areas of design and development, testing, production, record-keeping and quality control to assure that our products meet applicable specifications and other regulatory requirements. Failure to comply with these requirements could result in an enforcement action against us, including warning letters, the seizure of products, suspension or withdrawal of approvals, shutting down of production and criminal prosecution. Any of these third-party suppliers or contract manufacturers will also be subject to audits by the FDA and other regulatory agencies. If any of our third-party suppliers or contract manufacturers fail to comply with cGMP or other applicable manufacturing regulations, our ability to develop and commercialize our products could suffer significant interruptions and delays.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured the product ourselves, including:

reliance on the third party for regulatory compliance and quality assurance;

reliance on the continued financial viability of the third parties;

limitations on supply availability resulting from capacity and scheduling constraints of the third parties;

impact on our reputation in the marketplace if manufacturers of our products, once commercialized, fail to meet the demands of our customers;

the possible breach of the manufacturing agreement by the third party because of factors beyond our control;
and

the possible termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us.

If any of our contract manufacturers fail to achieve and maintain appropriate manufacturing standards, patients using our drug candidates could be injured or die, resulting in product liability claims. Even absent patient injury, we may be subject to product recalls, product seizures or withdrawals, delays or failures in testing or delivery, cost overruns or other problems that could seriously harm our business or profitability.

If we rely on a sole source of supply to manufacture our products we could be impacted by the viability of our supplier.

We intend to attempt to source our products from more than one supplier. We also intend to enter into contracts with any supplier of our products to contractually obligate them to meet our requirements. However, if we are reliant on a single supplier and that supplier cannot or will not meet our requirements (for whatever reason), our business could be adversely impacted.

Even if we obtain regulatory approvals, our drug candidates will be subject to ongoing regulatory review. If we fail to comply with continuing U.S. and applicable foreign regulations, we could lose those approvals, and our business

would be severely harmed.

Even if we receive regulatory approval of any drugs we are developing or may develop, we will be subject to continuing regulatory review, including the review of clinical results which are reported after our drug candidates become commercially available approved drugs. As greater numbers of patients use a drug following its approval, side effects and other problems may be observed after

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approval that were not seen or anticipated during preapproval clinical studies and trials. In addition, the manufacturer, and the manufacturing facilities we use to make any approved drugs, will also be subject to periodic review and inspection by the FDA. The subsequent discovery of previously unknown problems with the drug, manufacturer or facility may result in restrictions on the drug, manufacturer or facility, including withdrawal of the drug from the market. If we fail to comply with applicable continuing regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approval, product recalls and seizures, operating restrictions and criminal prosecutions.

As a condition of NDA approval for some of our products, the FDA may require a Risk Evaluation and Mitigation Strategy (REMS) to help ensure that the benefits of the drug outweigh the potential risks. REMS can include medication guides, communication plans for healthcare professionals, and elements to assure safe use, or ETASU. ETASU can include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. For example, approved versions of vigabatrin, the active moiety in our CPP-109 product (which operates by the same mechanism of action as our CPP-115 product) were approved with an FDA-mandated REMS program due to the risks of visual field damage and are only available through a special restricted distribution program approved by the FDA. If any of our products were to be approved with a REMS, the potential market and profitability of the drug could be materially affected.

Our product promotion and advertising is also subject to regulatory requirements and continuing regulatory review. In particular, the marketing claims we will be permitted to make in labeling or advertising regarding our marketed products will be limited by the terms and conditions of the FDA approved labeling. We must submit copies of our advertisements and promotional labeling to the FDA at the time of initial publication or dissemination. If the FDA believes these materials or statements promote our products for unapproved indications, or with unsubstantiated claims, or if we fail to provide appropriate safety related information, the FDA could allege that our promotional activities misbrand our products. Specifically, the FDA could issue an untitled letter or warning letter, which may demand, among other things, that we cease such promotional activities and issue corrective advertisements and labeling. The FDA also could take enforcement action including seizure of allegedly misbranded product, injunction or criminal prosecution against us and our officers or employees. If we repeatedly or deliberately fail to submit such advertisements and labeling to the agency, the FDA could withdraw our approvals. Moreover, the Department of Justice can bring civil or criminal actions against companies that promote drugs or biologics for unapproved uses, based on the False Claims Act and other federal laws governing reimbursement for such products under the Medicare, Medicaid and other federally supported healthcare programs. Monetary penalties in such cases have often been substantial, and civil penalties can include costly mandatory compliance programs and exclusion from federal healthcare programs.

Risks Related to Our Dependence on Third Parties

We are dependent on our relationship and license agreements, and we rely upon the patent rights granted to us pursuant to the license agreements.

All of our patent rights for Firdapse are derived from our license agreement with BioMarin. Pursuant to this license agreement, we have licensed rights under BioMarin's Firdapse patent in the United States, which expire in 2022. We may lose our rights to these patents and patent applications if we breach our obligations under the license agreement, including, without limitation, our financial obligations to BioMarin. If we violate or fail to perform any term or covenant of the license agreement, BioMarin may terminate the license agreement upon satisfaction of any applicable notice requirements and expiration of any applicable cure periods. Additionally, any termination of the license agreement, whether by us or by BioMarin, will not relieve us of our obligation to pay any license fees owing at the time of such termination. If we fail to retain our rights under the license agreement, we would not be able to

commercialize Firdapse , and our business, results of operations, financial condition and prospects would be materially adversely affected.

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All of our patent rights for CPP-115 are derived from our license agreement with Northwestern University. Pursuant to this license agreement, we have exclusive worldwide rights to two patents in the United States. These were filed and obtained by Northwestern relating to compositions of matter for a class of molecules, including CPP-115. Both patents expire in 2023. Additionally, we have licensed rights from Northwestern to a pending patent for derivatives of vigabatrin that are unrelated to CPP-115. These rights are subject to the right of Northwestern, under limited circumstances, to practice the covered inventions for or on its own behalf for research. We may lose our rights to these patents and patent applications if we breach our obligations under the license agreement, including, without limitation, our financial obligations, including milestone payments, to Northwestern. If we violate or fail to perform any term or covenant of the license agreement, Northwestern may terminate the license agreement upon satisfaction of any applicable notice requirements and expiration of any applicable cure periods. Additionally, any termination of the license agreement, whether by us or by Northwestern, will not relieve us of our obligation to pay any license fees owing at the time of such termination. If we fail to retain our rights under the license agreement, we would not be able to commercialize CPP-115, and our business, results of operations, financial condition and prospects would be materially adversely affected.

A patent to protect CPP-115 in all anticipated non-U.S. markets throughout the world was filed in March 2011 under the Patent Cooperation Treaty (PCT). Prosecution of this patent is ongoing, but it cannot be assured that the claims of this patent will be allowed, or, even if allowed, whether such claims will be allowed in a form that will provide adequate protection for CPP-115 outside the United States.

If we obtain approval to market Firdapse, CPP-115 or CPP-109, our commercial success will depend in large part on our ability to use patents, especially those licensed to us by BioMarin and Northwestern, respectively, to exclude others from competing with us. The patent position of emerging pharmaceutical companies like us can be highly uncertain and involve complex legal and technical issues. Until our licensed patents are interpreted by a court, either because we have sought to enforce them against a competitor or because a competitor has preemptively challenged them, we will not know the breadth of protection that they will afford us. Our patents may not contain claims sufficiently broad to prevent others from practicing our technologies or marketing competing products. Third parties may intentionally attempt to design around our patents or design around our patents so as to compete with us without infringing our patents. Moreover, the issuance of a patent is not conclusive as to its validity or enforceability, and so our patents may be invalidated or rendered unenforceable if challenged by others.

As a result of the foregoing factors, we cannot be certain how much protection from competition patent rights will provide us.

We rely on third parties to conduct our pre-clinical studies and our clinical studies and trials, and those third parties may not perform satisfactorily, including failing to meet established deadlines for the completion of such trials.

We do not currently have the ability to independently conduct pre-clinical studies or clinical studies and trials for our drug candidates, and we rely on third parties such as governmental and third-party contract research organizations, medical institutions and clinical investigators, to conduct such studies and trials. Our reliance on third parties for development activities reduces our control over these activities. These third parties may not complete activities on schedule, or may not conduct our pre-clinical studies and our clinical studies and trials in accordance with regulatory requirements or our study design. To date, the parties with which we are working have performed well, and we have no reason to believe they will not continue to do such work in the future. However, if these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be required to replace them.

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Although we believe there are a number of other parties with which we could engage to continue these activities, it may cause a delay in the affected study or trial and/or increase the cost of such study or trial. Accordingly, our efforts to obtain regulatory approvals for and commercialize our drug candidates may be delayed.

Risks Related to Our Intellectual Property

Our success will depend significantly on our ability to operate without infringing the patents and other proprietary rights of third parties.

While we are not currently aware of any third-party patents which we may infringe, there can be no assurance that we do not or will not infringe on patents held by third parties or that third parties will not claim that we have infringed on their patents. In the event that our technologies infringe or violate the patent or other proprietary rights of third parties, we may be prevented from pursuing product development, manufacturing or commercialization of our products that utilize such technologies. There may be patents held by others of which we are unaware that contain claims that our products or operations infringe. In addition, given the complexities and uncertainties of patent laws, there may be patents of which we are aware that we may ultimately be held to infringe, particularly if the claims of the patent are determined to be broader than we believe them to be. Adding to this uncertainty, in the U.S., patent applications filed in recent years are confidential for 18 months, while older applications are not publicly available until the patent issues. As a result, avoiding patent infringement may be difficult.

If a third party claims that we infringe its patents, any of the following may occur:

we may be required to pay substantial financial damages if a court decides that our technologies infringe a competitor's patent, which can be tripled if the infringement is deemed willful, or be required to discontinue or significantly delay development, marketing, selling and licensing of the affected products and intellectual property rights;

a court may prohibit us from selling or licensing our product without a license from the patent holder, which may not be available on commercially acceptable terms or at all, or which may require us to pay substantial royalties or grant cross-licenses to our patents; and

we may have to redesign our product so that it does not infringe others' patent rights, which may not be possible or could require substantial funds or time and require additional studies.

In addition, employees, consultants, contractors and others may use the proprietary information of others in their work for us or disclose our proprietary information to others. As an example, we do not currently have written agreements regarding confidentiality or any other matters with several principal members of our Scientific Advisory Board. If our employees, consultants, contractors or others disclose our data to others or use data belonging to others in connection with our business, it could lead to disputes over the ownership of inventions derived from that information or expose us to potential damages or other penalties.

The occurrence of any of these events could have a material adverse effect on our business, financial condition, results of operations or prospects.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

There is substantial history of litigation and other proceedings regarding patent and intellectual property rights in the pharmaceutical industry. We may be forced to defend claims of infringement brought by our competitors and others, and we may institute litigation against others who we believe are infringing our intellectual property rights. The outcome of intellectual property litigation is subject to substantial uncertainties and may, for example, turn on the interpretation of claim language by the court, which may not be to our advantage, or on the testimony of experts as to technical facts upon which experts may reasonably disagree.

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Under our license agreements, we have the right to bring legal action against any alleged infringers of the patents we license. However, we are responsible for all costs relating to such potential litigation. We have the right to any proceeds received as a result of such litigation, but, even if we are successful in such litigation, there is no assurance we would be awarded any monetary damages.

Our involvement in intellectual property litigation could result in significant expense to us. Some of our competitors have considerable resources available to them and a strong economic incentive to undertake substantial efforts to stop or delay us from commercializing products. Moreover, regardless of the outcome, intellectual property litigation against or by us could significantly disrupt our development and commercialization efforts, divert our management's attention and quickly consume our financial resources.

In addition, if third parties file patent applications or issue patents claiming technology that is also claimed by us in pending applications, we may be required to participate in interference proceedings with the U.S. Patent Office or in other proceedings outside the U.S., including oppositions, to determine priority of invention or patentability. Even if we are successful in these proceedings, we may incur substantial costs, and the time and attention of our management and scientific personnel will be diverted from product development or other more productive matters.

Risks Related to Our Common Stock

We are highly dependent on our small number of key personnel and advisors.

We are highly dependent on our officers, on our Board of Directors and on our scientific advisors. The loss of the services of any of these individuals could significantly impede the achievement of our scientific and business objectives. Other than an employment agreement with Patrick J. McEnany, our Chairman, President and Chief Executive Officer with respect to his services, and the consulting agreement we have with our medical director and with several of our scientific advisors, we have no employment or retention agreements with our officers, directors or scientific advisors. If we lose the services of any of our existing officers, directors or scientific advisors, or if we were unable to recruit qualified replacements on a timely basis for persons who leave our employ, our efforts to develop our product candidates might be significantly delayed. We do not carry key-man insurance on any of our personnel.

We have relationships with our scientific advisers and collaborators at academic and other institutions. Such individuals are employed by entities other than us and may have commitments to, or consulting advisory contracts with, such entities that may limit their availability to us. Although each scientific advisor and collaborator has agreed not to perform services for another person or entity that would create an appearance of a conflict of interest, conflicts may arise from the work in which other scientific advisers and/or collaborators are involved.

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The trading price of the shares of our common stock could be highly volatile.

The market price of our common stock has fluctuated in the past and is likely to fluctuate in the future. Market prices for early-stage pharmaceutical companies have historically been particularly volatile. Some of the factors that may cause the market price of our common stock to fluctuate include:

developments concerning our clinical studies and trials and our pre-clinical studies;

announcements of product development successes and failures by us or our competitors;

new products introduced or announced by us or our competitors;

adverse changes in the abilities of our third party manufacturers to provide drug or product in a timely manner or to meet FDA requirements;

changes in reimbursement levels;

changes in financial estimates by securities analysts;

actual or anticipated variations in operating results;

expiration or termination of licenses (particularly our licenses from BioMarin and Northwestern), research contracts or other collaboration agreements;

conditions or trends in the regulatory climate and the biotechnology and pharmaceutical industries;

intellectual property, product liability or other litigation against us;

changes in the market valuations of similar companies;

changes in pharmaceutical company regulations or reimbursements as a result of healthcare reform or other legislation;

changes in economic conditions; and

sales of shares of our common stock, particularly sales by our officers, directors and significant stockholders, or the perception that such sales may occur.

In addition, equity markets in general, and the market for emerging pharmaceutical and life sciences companies in particular, have experienced substantial price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies traded in those markets. In addition, changes in economic conditions in the United States, Europe or globally could impact our ability to grow profitably. Adverse economic changes are outside our control and may result in material adverse impacts on our business or financial results. These broad market and industry factors may materially affect the market price of our shares, regardless of our own development and operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

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Delaware law and our certificate of incorporation and by-laws contain provisions that could delay and discourage takeover attempts that stockholders may consider favorable.

Certain provisions of our certificate of incorporation and by-laws, and applicable provisions of Delaware corporate law, may make it more difficult for or prevent a third party from acquiring control of us or changing our Board of Directors and management. These provisions include:

the ability of our Board of Directors to issue preferred stock with voting or other rights or preferences;

limitations on the ability of stockholders to amend our charter documents, including stockholder supermajority voting requirements;

the inability of stockholders to act by written consent or to call special meetings;

requirements that special meetings of our stockholders may only be called by the Board of Directors; and

advance notice procedures our stockholders must comply with in order to nominate candidates for election to our Board of Directors or to place stockholders' proposals on the agenda for consideration at meetings of stockholders.

On September 20, 2011, our Board of Directors approved the adoption of a stockholder rights plan. The rights plan was implemented through our entry into a rights agreement with Continental Stock Transfer & Trust Company, as rights agent, and the declaration of a non-taxable dividend distribution of one preferred stock purchase right (each, a Right) for each outstanding share of our common stock. The dividend was paid on October 7, 2011 to holders of record as of that date. Each right is attached to and trades with the associated share of common stock. The rights will become exercisable only if a person acquires beneficial ownership of 17.5% or more of our common stock (or, in the case of a person who beneficially owned 17.5% or more of our common stock on the date the rights plan was adopted, such person acquires beneficial ownership of any additional shares of our common stock) or after the date of the Rights Agreement, commences a tender offer that, if consummated, would result in beneficial ownership by a person of 17.5% or more of our common stock. The rights will expire on September 20, 2016, unless the rights are earlier redeemed or exchanged.

The intent of the stockholder rights plan is to protect our stockholders' interests by encouraging anyone seeking control of our company to negotiate with our board of directors. However, our stockholder rights plan could make it more difficult for a third party to acquire us without the consent of our board of directors, even if the type, sensitivity and value of the customer information processed in our services and we do not vary our service offering and security measures due to the content of customer data. We have legal and contractual obligations to protect the confidentiality and appropriate use of customer data. Cyber-security risks, including but not limited to, unauthorized use or disclosure of customer data, theft of proprietary information, denial of service attacks, loss or corruption of customer data, and computer hacking attacks could expose us to substantial litigation expenses and damages, indemnity and other contractual obligations, government fines and penalties, mitigation expenses and other liability. Additionally, unauthorized persons may obtain access to our own sensitive, proprietary or confidential information or systems including our intellectual property and other confidential business information and our information technology

systems. Such access could be used to compromise our competitive position, our ability to deliver our services or our ability to manage and operate our business. The security measures protecting our customers' and our own information and systems could be breached as a result of third party action, employee error or employee misconduct. Because techniques used to obtain unauthorized access to, or 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, we could suffer severe reputational damage adversely affecting customer or investor confidence, the market perception of the effectiveness of our security measures could be harmed, we could lose potential sales and existing customers, our ability to operate our business may be impaired, we may be subject to litigation or regulatory investigations or orders, and we may incur significant liabilities. We do not have insurance sufficient to compensate us for the potentially significant losses that may result from security breaches.

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

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

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

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

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

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

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

Our future growth is dependent upon our ability to continue to meet the expanding needs of our customers as their use of our services grows. We expect the number of users and transactions we manage, the amount of data we transfer, process and store, the number of locations from which our services are being accessed, and the number of processes and systems we manage to continue to grow. In the past, a few of our largest customers experienced reduced levels of availability, performance and functionality due to the scale at which they implemented our services. In order to meet

the performance and other requirements of our customers, we intend to continue making significant investments to develop and implement new technologies in our services and cloud-based infrastructure operations. These technologies, which include databases, applications and server optimizations, network and hosting strategies, and automation, are often advanced, complex, new and untested. We may not be successful in developing or implementing these technologies. In addition, it takes a significant amount of time to plan, develop and test improvements to our technologies and infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. We are also dependent upon open source and other third-party technologies and may be unable to quickly effect changes to such technologies, which may prevent us from rapidly responding to evolving customer requirements. To the extent that we do not effectively scale our services and operations to meet the growing needs of our customers, we may not be able to grow as quickly as we anticipate, our customers may reduce or cancel use of our services, we may be unable to compete effectively and our business and operating results may be harmed.

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

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

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

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

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

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

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

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

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

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

Increasing our customer base and achieving broader market acceptance of our services will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities. We are substantially dependent on our direct sales force to obtain new customers. From December 31, 2013 to December 31, 2014, our sales and marketing organization increased from 615 to 1,011 employees. We plan to continue to expand our direct sales force both domestically and internationally. There is significant competition for direct sales personnel with the sales skills and technical knowledge that we require. Our ability to achieve significant revenue growth in the future will depend, in large part, on our success in recruiting, training and retaining a sufficient number of direct sales personnel and we may be unable to hire or retain sufficient numbers of qualified individuals. Further, new hires require significant training and time before they achieve full productivity, particularly in new sales territories and our recent hires and planned hires may not become as productive as quickly as we plan, or at all. Moreover, we do not have significant experience as an organization developing and implementing overseas sales and marketing campaigns, and such campaigns may be expensive and difficult to implement, and we may be unable to attract and retain qualified personnel to conduct such campaigns. Our business will be harmed if our expansion efforts do not generate a significant increase in revenues.

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

We depend on various third parties, such as implementation partners, systems integrators, managed services providers and sales partners in order to grow our business. Our sales efforts have focused on large enterprise customers and there are a limited number of partners with the capacity to provide these customers a significant level of services. In order to continue our growth, we need to recruit these partners and these partners need to devote substantial resources to our solutions. Accordingly, we need to build services, implement partner programs, and provide training and other resources to recruit, retain and enable these partners. Our agreements with partners are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing solutions. Our competitors may be effective in providing incentives to our partners to favor their solutions or otherwise disrupt the relationships we have with our partners. In addition, global economic conditions could harm the businesses of our partners, and it is possible that they may not be able to devote the additional resources we expect to the relationship. If we are unsuccessful in

establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results would suffer. As we expand the breadth of our services to include offerings for service domains outside of IT, and offerings for small and medium sized businesses, we may need to establish relationships with additional sales and implementation partners. Further, reliance on third parties exposes us to risk of poor performance and failed customer expectations. If a customer is not satisfied with the quality of work performed by a third party, we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction could damage our reputation or ability to obtain additional revenues from that customer or prospective customers.

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

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

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

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

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

Our success depends to a significant degree on our ability to protect our proprietary technology and our brand. We rely on a combination of copyright, trademark, trade secret and other intellectual property laws and confidentiality procedures to protect our proprietary rights. We have recently begun to seek patent protection for our technology. We may not be successful in obtaining patent protection, and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Any of our intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. We may be required to spend significant resources to monitor and protect our intellectual property rights. We have, and in the future may, initiate claims or litigation against third parties for infringement of our proprietary rights or to

establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us, divert the efforts of our technical and management personnel and may result in counter-claims with respect to infringement of intellectual property rights by us. If we are unable to prevent third parties from infringing upon or misappropriating our intellectual property, or are required to incur substantial expenses in defending our intellectual property rights, our business and operating results may be harmed.

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

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

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

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

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

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

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

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

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

meet our expectations, our financial results will be negatively impacted.

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

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

Because we sell our services throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in North America. Sales outside of North America represented 32% of our total revenues for the year ended December 31, 2014, and we intend to continue to expand our international sales efforts. Our business and future prospects depend on increasing our international sales as a percentage of our total revenues, and the failure to grow internationally will harm our business. The risks and challenges associated with sales to customers outside North America are different in some ways from those associated with sales in North America and we have a limited history addressing those risks and meeting those challenges. Furthermore, the business conduct and ethical standards of many other countries, including the emerging market countries that we are expanding into, are substantially different and much less rigorous than the United States. The risks and challenges inherent with international sales include:

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

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

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

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

highly regulated customers could harm our margins. Moreover, changes in the underlying regulatory conditions that affect these types of customers could harm our ability to efficiently provide our services to them and to grow or maintain our customer base.

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

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

We face exposure to foreign currency exchange rate fluctuations.

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

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

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

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of earnings and losses in differing jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, 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.

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

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

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

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

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

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

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

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

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

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

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

The Notes will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our liabilities that are not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt ranking senior in right of payment to the Notes will be available to pay obligations on the Notes only after the secured debt has been repaid in full from these assets, and the assets of our subsidiaries will be available to pay

obligations on the Notes only after all claims senior to the Notes have been repaid in full. There may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding. The indenture governing the Notes does not prohibit us from incurring additional senior debt or secured debt, nor does it prohibit any of our current or future subsidiaries from incurring additional liabilities.

As of December 31, 2014, we and our subsidiaries had \$443.8 million in consolidated indebtedness, and our subsidiaries had \$162.8 million of liabilities (including trade payables but excluding intercompany obligations and liabilities of a type not required to be reflected on a balance sheet of such subsidiaries in accordance with GAAP) to which the Notes would have been structurally subordinated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Notes are not protected by restrictive covenants.

The indenture governing the Notes does not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by us or any of our subsidiaries. The indenture contains no covenants or other provisions to afford protection to holders of the Notes in the event of a fundamental change or other corporate transaction involving us except in certain cases described in the indenture connected with fundamental changes, consolidations, mergers or sales of assets.

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

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

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

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

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

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

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

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

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

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

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

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

We cannot guarantee an active trading market for the Notes.

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

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

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

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

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

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

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

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

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

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

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

and, under certain circumstances, the ability of the note holders to convert the Notes.

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

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

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

Risks Relating to Ownership of Our Common Stock

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

The trading price of our common stock has been, and is likely to continue to be, volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Since shares of our common stock were sold in our initial public offering in June 2012 at a price of \$18.00 per share, our stock price has ranged from \$22.62 to \$71.80 through December 31, 2014. In addition, the trading prices of the securities of technology companies in general have been highly volatile, and the volatility in market price and trading volume of securities is often unrelated or disproportionate to the financial performance of the companies issuing the securities. Factors affecting the market price of our common stock include:

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

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

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

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

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

As of December 31, 2014, our directors and executive officers and their respective affiliates beneficially owned in the aggregate approximately 11% of our outstanding voting stock. Together, these stockholders have the ability to influence us through this ownership position. For example, these stockholders may be able to influence elections of directors, amendments of our organizational documents, or the approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office is located at 3260 Jay Street in Santa Clara, California. On December 12, 2014, we entered into a lease agreement pursuant to which we will lease approximately 328,867 square feet of space, located at 2215 Lawson Lane, 2225 Lawson Lane, and 2235 Lawson Lane, Santa Clara, California. The initial term of the lease is expected to commence on August 15, 2015, although the commencement date may be extended in certain circumstances if specified improvements to the premises have not been completed by such date.

We also maintain offices in various North American, European and Asian countries. All of our properties are currently leased. We believe our existing facilities are adequate to meet our current requirements. See Note 18 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information about our lease commitments. If we were to require additional space, we believe we will be able to obtain such space on acceptable, commercially reasonable, terms.

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

Our common stock is listed on the New York Stock Exchange under the symbol "NOW."

The following table sets forth for the indicated periods the high and low sales prices of our common stock as reported by the New York Stock Exchange.

	High	Low
Year ended December 31, 2014		
First Quarter	\$71.80	\$54.36
Second Quarter	\$63.96	\$44.17
Third Quarter	\$64.98	\$54.11
Fourth Quarter	\$70.90	\$54.05
Year ended December 31, 2013		
First Quarter	\$38.22	\$25.54
Second Quarter	\$43.99	\$33.95
Third Quarter	\$53.11	\$39.83
Fourth Quarter	\$58.41	\$47.37

Dividend Policy

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

Stockholders

As of December 31, 2014, there were 25 registered stockholders of record (not including beneficial holders of stock held in street names) of our common stock

Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, the Exchange Act, or the Securities Act except to the extent we specifically incorporate it by reference into such filing.

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The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the NYSE Composite Index and the Standard & Poor Systems Software Index for the period beginning on June 29, 2012 (the date our common stock commenced trading on the New York Stock Exchange) through December 31, 2014, assuming an initial investment of \$100. Data for the NYSE Composite Index and the Standard & Poor Systems Software Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

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	Jun 29, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
ServiceNow, Inc.	100.00	157.24	122.07	147.15	164.19	211.18	227.68	243.58	251.87	238.94	275.81
NYSE Composite	100.00	106.46	109.60	118.97	120.54	127.34	138.40	140.95	147.96	145.06	147.74
S&P Systems Software	100.00	101.19	97.22	102.05	112.75	113.91	129.20	139.18	141.64	150.50	158.92

Unregistered Sales of Equity Securities

There were no unregistered sales of equity securities which have not been previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K during the year ended December 31, 2014.

Issuer Purchases of Equity Securities

During the year ended December 31, 2014, we did not purchase any of our equity securities that are registered under Section 12 of the Exchange Act.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

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 filing. 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 each of the years ended December 31, 2014, 2013 and 2012, and the selected consolidated balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements and are included in this Form 10-K. The consolidated statements of operations data for the six months ended December 31, 2011, fiscal 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012, 2011, and June 30, 2011 and 2010 are derived from our audited consolidated financial statements which are not included in this Annual Report on Form 10-K.

In February 2012, we changed our fiscal year-end from June 30 to December 31. References to “fiscal 2010” and “fiscal 2011” are to the fiscal years ended June 30, 2010 and 2011, while references to 2011, 2012, 2013 and 2014 refer to the respective years ending on December 31.

	Year Ended December 31,			Six Months Ended December 31,	Fiscal Year Ended June 30,	
	2014	2013	2012	2011	2011	2010
	(in thousands, except share and per share data)					
Consolidated Statements of Operations Data:						
Revenues ⁽¹⁾ :						
Subscription	\$567,217	\$349,804	\$204,526	\$64,886	\$79,191	\$40,078
Professional services and other	115,346	74,846	39,186	8,489	13,450	3,251
Total revenues	682,563	424,650	243,712	73,375	92,641	43,329
Cost of revenues ⁽²⁾⁽³⁾ :						
Subscription	142,687	87,928	63,258	15,073	15,311	6,378
Professional services and other	106,089	67,331	40,751	12,850	16,264	9,812
Total cost of revenues	248,776	155,259	104,009	27,923	31,575	16,190
Gross profit	433,787	269,391	139,703	45,452	61,066	27,139
Operating expenses ⁽²⁾⁽³⁾ :						
Sales and marketing	341,119	195,190	103,837	32,501	34,123	19,334
Research and development	148,258	78,678	39,333	7,030	7,004	7,194
General and administrative	96,245	61,790	34,117	10,084	9,379	28,810
Total operating expenses	585,622	335,658	177,287	49,615	50,506	55,338
Income (loss) from operations	(151,835)	(66,267)	(37,584)	(4,163)	10,560	(28,199)
Interest and other income (expense), net	(23,705)	(4,930)	1,604	(1,446)	606	(1,226)
Income (loss) before provision for income taxes	(175,540)	(71,197)	(35,980)	(5,609)	11,166	(29,425)
Provision for income taxes	3,847	2,511	1,368	1,075	1,336	280
Net income (loss)	\$(179,387)	\$(73,708)	\$(37,348)	\$(6,684)	\$9,830	\$(29,705)
Net income (loss) attributable to common stockholders:						

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Basic	\$(179,387)	\$(73,708)	\$(37,656)	\$(6,996)	\$1,639	\$(30,345)
Diluted	\$(179,387)	\$(73,708)	\$(37,656)	\$(6,996)	\$2,310	\$(30,345)
Net income (loss) per share attributable to common stockholders:						
Basic	\$(1.23)	\$(0.54)	\$(0.51)	\$(0.33)	\$0.09	\$(1.31)
Diluted	\$(1.23)	\$(0.54)	\$(0.51)	\$(0.33)	\$0.08	\$(1.31)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders:						
Basic	145,355,543	135,415,809	73,908,631	21,104,219	18,163,977	23,157,576
Diluted	145,355,543	135,415,808	73,908,630	21,104,219	28,095,486	23,157,576

Revenues subsequent to July 1, 2010 reflect the prospective adoption of new revenue accounting guidance for (1) arrangements with multiple deliverables. 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:

	Year Ended December 31,			Six Months	Fiscal Year Ended June 30,	
	2014	2013	2012	Ended December 31, 2011	2011	2010
	(in thousands)					
Cost of revenues:						
Subscription	\$14,988	\$8,434	\$3,929	\$674	\$548	\$48
Professional services and other	13,116	4,749	1,574	193	117	28
Sales and marketing	54,006	21,609	10,189	2,010	1,004	277
Research and development	42,535	16,223	6,496	704	468	90
General and administrative	29,674	14,566	5,749	2,056	817	102

Cost of revenues and operating expenses for the fiscal year ended June 30, 2010 reflect compensation expense of (3) \$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.

	As of December 31,				As of June 30,	
	2014	2013	2012	2011	2011	2010
	(in thousands)					
Consolidated Balance Sheet						
Data:						
Cash and cash equivalents	\$252,455	\$366,303	\$118,989	\$68,088	\$59,853	\$29,402
Working capital, excluding deferred revenue	809,660	722,214	364,426	95,033	75,801	33,080
Total assets	1,425,079	1,168,476	478,114	156,323	108,746	51,369
Deferred revenue, current and non-current portion	422,238	266,722	170,361	104,636	74,646	40,731
Convertible senior notes, net	443,764	414,777	—	—	—	—
Convertible preferred stock	—	—	—	68,172	67,860	67,227
Total stockholders' equity (deficit)	428,675	394,259	243,405	(57,426)	(58,381)	(71,262)

ITEM 7. 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 under "Consolidated Financial Statements and Supplementary Data" in Item 8 of this filing. Some of the information contained in this discussion and analysis or set forth elsewhere in this filing, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should carefully read the "Forward Looking Statements" and "Risk Factors" sections of this filing 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 solutions that define, structure, manage and automate services across the global enterprise. By applying a service-oriented lens to the activities, tasks and processes that comprise day-to-day work life, we help the modern enterprise operate faster and be more scalable than ever before. We offer our services on an annual subscription fee basis which includes access to the ordered subscription service and related support including updates to the subscribed service during the subscription term. We provide a scaled pricing model based on the duration of the subscription term and we frequently extend discounts to our customers based on the number of users. We generate sales through our direct sales team and indirectly through channel partners and third-party referrals. We also generate revenues from professional services for implementation and training of customer personnel. We generally bill our customers annually in advance for subscription services and monthly in arrears for our professional services as the work is performed.

A majority of our revenues come from large global enterprise customers. We continue to invest in the development of our services, infrastructure and sales and marketing to drive long-term growth. We increased our overall employee headcount to 2,826 as of December 31, 2014 from 1,830 as of December 31, 2013.

Key Factors Affecting Our Performance

Upsell rate. To grow our business it is important for us to generate additional sales from existing customers, which we refer to as our upsell rate. We calculate our upsell rate as the annualized contract value, or ACV, of upsells, net of losses during the period, divided by our total ACV signed during the period. The upsell rate was 36%, 31% and 30% for the years ended December 31, 2014, 2013 and 2012, respectively. Our upsells are primarily derived by an increase in the number of seat licenses purchased by our customers and are also derived from the addition of other subscription services.

Renewal rate. We calculate our renewal rate by subtracting our attrition rate from 100%. Our attrition rate for a period is equal to the ACV from lost customers, divided by the total ACV from all customers that renewed during the period and from all lost customers. A lost customer is a customer that did not renew a contract expiring in the period and that, in our judgment, will not renew. Typically a customer that reduces its subscription upon renewal is not considered a lost customer. However, in instances where the subscription decrease represents the majority of the customer's ACV, we may deem the renewal as a lost customer. Our renewal rate was 97%, 96% and 97% for the years ended December 31, 2014, 2013 and 2012, respectively.

Total customers. We believe our total customer count is a key indicator of our market penetration, growth and future revenues. We have aggressively invested in, and intend to continue to invest in, our direct sales force and additional partnerships with our indirect sales channel. We generally define a customer as an entity with an active subscription

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 services are counted as a separate customer. As of December 31, 2014, 2013 and 2012, our total customer count was 2,725, 2,061 and 1,512, respectively. Our customer count excludes customers of our Express product offering, which is our recently launched standardized IT service management solution.

Number of customers with ACV greater than \$1 million. We count the total number of customers with ACV greater than \$1 million as of the end of the period. We had 129, 67 and 37 customers with ACV greater than \$1 million as of December 31, 2014, 2013 and 2012, respectively.

G2K customer count. The Global 2000 ("G2K") customer count is defined as the total number of G2K companies in our customer base as of the end of the period. The Forbes Global 2000 is an annual ranking of the top 2000 public companies in the world by Forbes magazine. The ranking is based on a mix of four metrics: sales, profit, assets, and market value. The Forbes list is updated annually in the second quarter of the calendar year. Current and prior period G2K customer counts are based on the most recent list for comparability purposes. We adjust the G2K count for acquisitions, spin-offs, and other market activity to ensure the G2K customer count is accurately captured. For example, when a G2K company that is not our customer acquires a company in our existing customer base that is not a G2K company, a new G2K customer will be added in the quarter the acquisition occurs. When we enter into a contract with a G2K parent company, or any of its related subsidiaries, or any combination of entities within a G2K company, only one G2K customer will be counted. Further penetration into entities within the G2K customer is not counted as a new customer in the G2K customer count. Our G2K customer count was 522, 400 and 265 as of December 31, 2014, 2013 and 2012, respectively.

Components of Results of Operations

Revenues

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

We generate sales directly through our sales team and, to a lesser extent, through our channel partners. Sales to our channel partners are made at a discount and revenues are recorded at the discounted price when all revenue recognition criteria are met. From time to time, our channel partners also provide us referrals for which we pay a referral fee. We pay referral fees to channel partners and other third parties, which is typically 15% of the customer's ACV. The referral fees paid could vary depending on the level of activity the partner performs in the sales process. 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. Our pricing for professional services are primarily on a time-and-materials basis. We generally invoice our professional services monthly in arrears based on actual hours and expenses incurred. Other revenues include primarily fees from customer training delivered on-site or publicly available classes, royalties from licensing training materials, attendance and sponsorship fees for our annual Knowledge user conference and other customer forums. Typical payment terms require our customers to pay us within 30 days of invoice.

Refer to "Critical Accounting Policies and Significant Judgments and Estimates" below for further discussion of our revenue recognition accounting policy.

Allocation of Overhead Costs

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

Cost of Revenues

Cost of subscription revenues. Cost of subscription revenues consists primarily of expenses related to hosting our services and providing support to our customers. These expenses are comprised of data center capacity costs, depreciation related to our cloud-based infrastructure hardware equipment, amortization of acquired developed technology intangibles, personnel related costs directly associated with our cloud-based infrastructure and customer support, including salaries, benefits, bonuses and stock-based compensation and allocated overhead.

Cost of professional services and other revenues. Cost of professional services and other revenues consists primarily of personnel related costs directly associated with our professional services and training departments, including salaries, benefits, bonuses and stock-based compensation, the costs of contracted third-party vendors and allocated overhead.

Professional services associated with the implementation and configuration of our subscription services are performed directly by our services team, as well as by contracted third-party vendors. Fees paid to third-party vendors are primarily recognized as cost of revenues as the professional services are delivered. Cost of revenues associated with our professional services engagements contracted with third-party vendors as a percentage of professional services and other revenues was 17%, 17% and 26% for the years ended December 31, 2014, 2013 and 2012, respectively.

Sales and Marketing Expenses

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

Research and Development Expenses

Research and development expenses consist primarily of personnel related expenses directly associated with our research and development staff, including salaries, benefits, bonuses and stock-based compensation and allocated overhead.

General and Administrative Expenses

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

Provision for Income Taxes

The provision for income taxes consists of federal, state and foreign income taxes. Due to cumulative losses, we maintain a valuation allowance against our U.S. deferred tax assets as of December 31, 2014 and 2013. We consider all available evidence, both positive and negative, including but not limited to, earnings history, projected future outcomes, industry and market trends and the nature of each of the deferred tax assets in assessing the extent to which a valuation allowance should be applied against our U.S. deferred tax assets.

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.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Revenues:			
Subscription	\$567,217	\$349,804	\$204,526
Professional services and other	115,346	74,846	39,186
Total revenues	682,563	424,650	243,712
Cost of revenues ⁽¹⁾ :			
Subscription	142,687	87,928	63,258
Professional services and other	106,089	67,331	40,751
Total cost of revenues	248,776	155,259	104,009
Gross profit	433,787	269,391	139,703
Operating expenses ⁽¹⁾ :			
Sales and marketing	341,119	195,190	103,837
Research and development	148,258	78,678	39,333
General and administrative	96,245	61,790	34,117
Total operating expenses	585,622	335,658	177,287
Loss from operations	(151,835	) (66,267	) (37,584
Interest and other income (expense), net	(23,705	) (4,930	) 1,604
Loss before provision for income taxes	(175,540	) (71,197	) (35,980
Provision for income taxes	3,847	2,511	1,368
Net loss	\$(179,387	) \$(73,708	) \$(37,348

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

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Cost of revenues:			
Subscription	\$14,988	\$8,434	\$3,929
Professional services and other	13,116	4,749	1,574
Sales and marketing	54,006	21,609	10,189
Research and development	42,535	16,223	6,496
General and administrative	29,674	14,566	5,749

	Year Ended December 31,			
	2014	2013	2012	
Revenues:				
Subscription	83	% 82	% 84	%
Professional services and other	17	18	16	
Total revenues	100	100	100	
Cost of revenues:				
Subscription	21	21	26	
Professional services and other	16	16	17	
Total cost of revenues	37	37	43	
Gross profit	63	63	57	
Operating expenses:				
Sales and marketing	50	46	42	
Research and development	22	18	16	
General and administrative	14	14	14	
Total operating expenses	86	78	72	
Loss from operations	(23	) (15	) (15)
Interest and other income (expense), net	(2	) (1	) 1	
Loss before provision for income taxes	(25	) (16	) (14)
Provision for income taxes	1	1	1	
Net loss	(26	)% (17	)% (15)%

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Revenues by geography			
North America	\$465,332	\$295,400	\$173,001
Europe	173,635	105,177	60,579
Asia Pacific and other	43,596	24,073	10,132
Total revenues	\$682,563	\$424,650	\$243,712

	Year Ended December 31,			
	2014	2013	2012	
Revenues by geography				
North America	68	% 69	% 71	%
Europe	26	25	25	
Asia Pacific and other	6	6	4	
Total revenues	100	% 100	% 100	%

Comparison of the years ended December 31, 2014 and 2013

Revenues

	Year Ended December 31,		% Change	
	2014	2013		
	(dollars in thousands)			
Revenues:				
Subscription	\$567,217	\$349,804	62	%
Professional services and other	115,346	74,846	54	%
Total revenues	\$682,563	\$424,650	61	%
Percentage of revenues:				
Subscription	83	% 82		%
Professional services and other	17	18		
Total	100	% 100		%

Subscription revenues increased \$217.4 million during the year ended December 31, 2014, compared to the prior year, driven by our upsells, renewals and an increase in our customer count. The number of deals with new ACV greater than \$1 million entered into during the years ended December 31, 2014 and 2013 were 36 and 14, respectively. We define new ACV as ACV from new customers and upsells to existing customers. The average new customer contract term were 34 months and 33 months for the years ended December 31, 2014 and 2013, respectively. The average upsell contract term and average renewal contract term remained at 24 months and 26 months, respectively, for the years ended December 31, 2014 and 2013. We calculate the average contract term for new customers, upsells, and renewals based on the term of those contracts entered into during the period weighted by their ACV. Revenues from our direct sales organization and channel partners represented 87% and 13%, respectively, for the year ended December 31, 2014 and 88% and 12%, respectively for the year ended December 31, 2013.

Professional services and other revenues increased \$40.5 million during the year ended December 31, 2014, compared to the prior year, due to an increase in the services provided to our growing customer base. In addition, revenues from our annual Knowledge user conference increased to \$8.2 million during the year ended December 31, 2014 compared to \$5.0 million in the prior year due to increased sponsorship and paid registrations in the current year.

Our annual total revenues per customer increased to approximately \$287,000 for the year ended December 31, 2014, compared to approximately \$238,000 for the year ended December 31, 2013. Our annual total revenues per customer is the sum of average quarterly revenues for the trailing four quarters. We calculate average quarterly revenues per customer by dividing the quarter's revenues by the average number of customers in the quarter. In the second quarter of 2014, we made a change to our calculation to improve the accuracy of our average revenues per customer. In this filing, we have used this updated calculation for each of the years ended December 31, 2014 and 2013. The change in methodology increased the annual total revenues per customer that we had disclosed in the prior year by 3%.

Cost of Revenues and Gross Profit Percentage

	Year Ended December 31,		% Change	
	2014	2013		
	(dollars in thousands)			
Cost of revenues:				
Subscription	\$142,687	\$87,928	62	%
Professional services and other	106,089	67,331	58	%
Total cost of revenues	\$248,776	\$155,259	60	%
Gross profit percentage:				
Subscription	75	% 75	%	
Professional services and other	8	% 10	%	
Total gross profit percentage	63	% 63	%	
Gross profit:	\$433,787	\$269,391	61	%
Headcount (at period end)				
Subscription	478	341	40	%
Professional services and other	416	295	41	%
Total headcount	894	636	41	%

Cost of subscription revenues increased \$54.8 million during the year ended December 31, 2014, compared to the prior year, primarily due to increased headcount resulting in an increase of \$22.9 million in personnel related costs excluding stock-based compensation, an increase of \$6.6 million in stock-based compensation, an increase of \$6.3 million in depreciation expense primarily due to purchases of cloud-based infrastructure hardware equipment for our data centers and an increase of \$4.4 million in other overhead expenses. Data center capacity costs increased \$5.4 million primarily due to the expansion of our data centers. Amortization of intangible assets increased \$5.4 million as a result of the acquisition of Neebula Systems, Ltd., or Neebula, in July 2014.

Our subscription gross profit percentage was 75% for each of the years ended December 31, 2014 and 2013. We expect our cost of subscription revenues to increase in absolute dollar terms as we provide subscription services to more customers and increase the number of users within our customer instances, but we expect such increase to be at a slower rate than the increase in our subscription revenue, leading to a slight increase in our subscription gross profit percentage for the year ended December 31, 2015 as we continue to leverage the investments we have made in our existing data center infrastructure. To the extent future acquisitions are consummated, our cost of subscription revenues may increase due to additional non-cash charges associated with the amortization of intangible assets acquired.

We expect to incur a GAAP loss for the year ended December 31, 2015, due to increased costs such as non-cash charges associated with equity awards and business combinations and other expenses.

Cost of professional services and other revenues increased \$38.8 million during the year ended December 31, 2014 as compared to the prior year, primarily due to increased headcount resulting in an increase of \$21.6 million in personnel related costs excluding stock-based compensation, an increase of \$8.4 million in stock-based compensation, an increase of \$3.2 million in overhead expenses, and an increase of \$6.0 million in contracted third-party vendor costs.

Our professional services and other gross profit percentage decreased to 8% during the year ended December 31, 2014 compared to 10% in the prior year due to increased stock-based compensation. The decrease in gross profit percentage was partially offset by the increase in revenues from our annual Knowledge user conference. Costs associated with Knowledge are included in sales and marketing expense. Knowledge contributed \$8.2 million, or 7 percentage points to the professional services and other gross profit percentage for the year ended December 31, 2014. Knowledge contributed \$5.0 million in revenue, or 6 percentage points to the professional services and other gross profit

percentage for the year ended December 31, 2013. We expect our gross profit percentage from professional services and other to remain relatively flat for the year ended December 31, 2015.

Sales and Marketing

	Year Ended December 31		% Change	
	2014	2013		
	(dollars in thousands)			
Sales and marketing	\$341,119	\$195,190	75	%
Percentage of revenues	50	% 46	%	
Headcount (at period end)	1,011	615	64	%

Sales and marketing expenses increased \$145.9 million during the year ended December 31, 2014, compared to the prior year, primarily due to increased headcount that resulted in an increase of \$67.5 million in personnel related costs excluding stock-based compensation, an increase of \$32.4 million in stock-based compensation, an increase of \$8.6 million in overhead expenses, and an increase of \$21.6 million in commission expense. Commissions and referral fee expenses amounted to 10% of subscription revenues for the years ended December 31, 2014 and 2013.

In addition, expenses related to our annual Knowledge user conference increased \$7.0 million, from \$8.3 million for the year ended December 31, 2013 to \$15.3 million for the year ended December 31, 2014, due to an increase in attendance of more than 50% year-over-year. All other marketing program expenses, which include events, advertising and market data, increased \$6.1 million for the year ended December 31, 2014 compared to the prior year.

We expect sales and marketing expenses to increase for the year ended December 31, 2015 in absolute dollar terms, but remain relatively flat as a percentage of total revenues as we continue to expand our direct sales force, increase our marketing activities, grow our international operations, build brand awareness and sponsor additional marketing events.

Research and Development

	Year Ended December 31		% Change	
	2014	2013		
	(dollars in thousands)			
Research and development	\$148,258	\$78,678	88	%
Percentage of revenues	22	% 18	%	
Headcount (at period end)	585	352	66	%

Research and development expenses increased \$69.6 million during the year ended December 31, 2014, compared to the prior year, primarily due to increased headcount which resulted in an increase of \$34.9 million in personnel related costs excluding stock-based compensation, an increase of \$26.3 million in stock-based compensation and an increase of \$6.7 million in overhead expenses.

We expect research and development expenses to increase for the year ended December 31, 2015 in absolute dollar terms, but remain flat as a percentage of total revenues as we continue to improve the existing functionality of our services, develop new applications to fill market needs and continue to enhance our core platform.

General and Administrative

	Year Ended December 31		% Change	
	2014	2013		
	(dollars in thousands)			
General and administrative	\$96,245	\$61,790	56	%
Percentage of revenues	14	% 14	%	
Headcount (at period end)	336	227	48	%

General and administrative expenses increased \$34.5 million during the year ended December 31, 2014, compared to the prior year, primarily due to increased headcount which resulted in an increase of \$10.3 million in personnel related costs excluding stock-based compensation, an increase of \$15.1 million in stock-based compensation and an increase of \$3.0 million in overhead expenses. Outside services increased \$4.5 million primarily due to an increase in legal fees associated with our litigation, an increase in the number of contractors to support our administrative functions and costs associated with the acquisition of Neebula.

We expect general and administrative expenses to increase for the year ended December 31, 2015 in absolute dollar terms as we continue to hire people and incur costs associated with our litigation, but to decrease as a percentage of total revenues as we continue to grow.

Stock-based Compensation

	Year Ended December 31		% Change	
	2014	2013		
	(dollars in thousands)			
Cost of revenues:				
Subscription	\$14,988	\$8,434	78	%
Professional services and other	13,116	4,749	176	%
Sales and marketing	54,006	21,609	150	%
Research and development	42,535	16,223	162	%
General and administrative	29,674	14,566	104	%
Total stock-based compensation	\$154,319	\$65,581	135	%
Percentage of revenues	23	% 15	%	

Stock-based compensation increased \$88.7 million during the year ended December 31, 2014, compared to the prior year, primarily due to increased headcount, an increase in the weighted-average grant date fair value of stock awards, and performance RSUs granted to our executives in the current year. The new equity incentive awards granted in the current year, including the performance RSUs, resulted in an increase of \$75.1 million in stock-based compensation. The weighted-average grant date exercise price per stock option share was \$61.40 and \$38.07 for the year ended December 31, 2014 and 2013, respectively. The weighted-average grant date fair value per restricted stock unit was \$61.13 and \$38.15 for the year ended December 31, 2014 and 2013, respectively.

In addition, stock-based compensation increased \$19.9 million related to equity incentive awards granted in the prior year, for which a partial year of expense was recognized in the prior year and \$2.4 million related to increased participation in our employee stock purchase plan. The increase in stock-based compensation was partially offset by stock awards forfeited in the current year and stock awards fully vesting in the current year.

Stock-based compensation is inherently difficult to forecast due to fluctuations in our stock price and the uncertainty around the achievement of performance criteria associated with our performance RSUs. We expect stock-based compensation to continue to increase for the year ended December 31, 2015 in absolute dollar terms and as a

percentage of total revenues.

We expect to incur a GAAP loss for the year ended December 31, 2015, due to increased costs such as non-cash charges associated with equity awards and business combinations and other expenses.

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Interest and Other Income (Expense), net

	Year Ended December 31		% Change		
	2014	2013			
	(dollars in thousands)				
Interest expense related to the Notes	\$(29,059	) \$(3,498	)	731	%
Interest income	2,964	1,053		181	%
Foreign currency exchange gain/(loss)	2,490	(2,493	)	(200)%
Other	(100	) 8		NM	
Interest and other income/(expense), net	\$(23,705	) \$(4,930	)	NM	
Percentage of revenues	(2	)%	(1)%	

Interest and other expense, net, increased \$18.8 million during the year ended December 31, 2014, compared to the prior year, primarily due to a \$25.6 million increase in amortization expense of debt discount and issuance costs related to our convertible senior notes (the "Notes") issued in November 2013, partially offset by a gain from foreign currency transactions and increased interest income. We had a foreign currency transaction gain of \$2.5 million for the year ended December 31, 2014, compared to a loss of \$2.5 million for the prior year, primarily due to the strengthening of the U.S. Dollar against other major currencies and an increase in our foreign operations. Interest income increased \$1.9 million due to the higher investment balances during the year ended December 31, 2014 compared to the prior year. During the year ended December 31, 2015, we expect to incur approximately \$31.1 million in amortization expense of debt discount and issuance costs related to the Notes. Our expanding international operations will continue to increase our exposure to currency risks, though we cannot presently predict the impact of this exposure on our consolidated financial statements.

While we have not engaged in the hedging of our foreign currency transactions to date, we are presently evaluating the costs and benefits of initiating such a program and may hedge selected significant transactions denominated in currencies other than the U.S. dollar in the future.

Provision for Income Taxes

	Year Ended December 31		% Change		
	2014	2013			
	(dollars in thousands)				
Loss before income taxes	\$(175,540	) \$(71,197	)	147	%
Provision for income taxes	3,847	2,511		53	%
Effective tax rate	(2	)%	(4)%	

Our effective tax rate was (2)% for the year ended December 31, 2014 compared to (4)% for the prior year. Our tax expense increased \$1.3 million during the year ended December 31, 2014, compared to the prior year, primarily due to a higher proportion of taxable earnings in foreign jurisdictions. See Note 16 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. for our reconciliation of income taxes at the statutory federal rate to the provision for income taxes.

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

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consider the earnings of our foreign subsidiaries to be indefinitely reinvested outside of the United States.

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Comparison of the years ended December 31, 2013 and 2012

Revenues

	Year Ended December 31,		% Change	
	2013	2012		
	(dollars in thousands)			
Revenues:				
Subscription	\$349,804	\$204,526	71	%
Professional services and other	74,846	39,186	91	%
Total revenues	\$424,650	\$243,712	74	%
Percentage of revenues:				
Subscription	82	% 84		%
Professional services and other	18	16		
Total	100	% 100		%

Subscription revenues increased \$145.3 million during the year ended December 31, 2013, compared to the prior year, driven by our upsells, renewals and an increase in our customer count. Our upsell rate and renewal rate for the trailing twelve months ending December 31, 2013 were 31% and 96%, respectively, compared to 30% and 97%, respectively, for the trailing twelve months ending December 31, 2012. Total customer count at December 31, 2013 was 2,061 compared to 1,512 at December 31, 2012, an increase of 36%. Revenues from our direct sales organization and channel partners represented 88% and 12%, respectively, for the years ended December 31, 2013 and 2012.

Professional services and other revenues increased \$35.7 million during the year ended December 31, 2013, compared to the prior year, due to an increase in the services provided to our growing customer base, increase in utilization and improvements in pricing of our professional services engagements. In addition, revenues from our annual Knowledge user conference increased to \$5.0 million during the year ended December 31, 2013 compared to \$2.0 million in the prior year due to increased sponsorship and paid registrations.

Our annual total revenues per customer increased to approximately \$238,000 for the year ended December 31, 2013, compared to approximately \$199,000 for the year ended December 31, 2012. Our annual total revenues per customer is the sum of average quarterly revenues for the trailing four quarters. We calculate average quarterly revenues per customer by dividing the quarter's revenues by the average number of customers in the quarter. In the second quarter of 2014, we made a change to our calculation to improve the accuracy of our average revenues per customer. In this filing, we have used this updated calculation for each of the years ended December 31, 2013 and 2012. The change in methodology increased the annual total revenues per customer that we had disclosed in the prior year by 5%.

Cost of Revenues and Gross Profit (Loss) Percentage

	Year Ended December 31,		% Change	
	2013	2012		
	(dollars in thousands)			
Cost of revenues:				
Subscription	\$87,928	\$63,258	39	%
Professional services and other	67,331	40,751	65	%
Total cost of revenues	\$155,259	\$104,009	49	%
Gross profit (loss) percentage:				
Subscription	75	% 69		%
Professional services and other	10	% (4)	%
Total gross profit percentage	63	% 57		%
Gross profit:	\$269,391	\$139,703	93	%
Headcount (at period end)				
Subscription	341	218	56	%
Professional services and other	295	183	61	%
Total headcount	636	401	59	%

Cost of subscription revenues increased \$24.7 million during the year ended December 31, 2013, compared to the prior year, primarily due to increased headcount resulting in an increase of \$14.6 million in personnel related costs excluding stock-based compensation, an increase of \$4.5 million in stock-based compensation, an increase of \$4.7 million in depreciation expense primarily due to purchases of cloud-based infrastructure hardware equipment for our data centers and an increase of \$2.7 million in other overhead expenses. Data center capacity costs decreased \$1.8 million primarily due to the migration of customers from our managed service data centers to our co-location data centers.

Our subscription gross profit percentage was 75% for the year ended December 31, 2013 compared to 69% for the prior year.

Cost of professional services and other revenues increased \$26.6 million during the year ended December 31, 2013 as compared to the prior year primarily due to increased headcount resulting in an increase of \$17.3 million in personnel related costs excluding stock-based compensation, an increase of \$3.2 million in stock-based compensation, an increase of \$2.1 million in overhead expenses, and an increase of \$3.7 million in outside services costs.

Our professional services and other gross profit (loss) percentage increased to 10% during the year ended December 31, 2013 compared to (4)% in the prior year due to improved scoping and pricing on customer engagements, better resource utilization and an increase in revenues from our annual Knowledge user conference which contributed six percentage points to the professional services and other gross profit percentage for each of the years ended December 31, 2013 and 2012. All related expenses from our annual Knowledge user conference are recorded in sales and marketing.

Sales and Marketing

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
Sales and marketing	\$195,190	\$103,837	88	%
Percentage of revenues	46	% 42		%
Headcount (at period end)	615	350	76	%

Sales and marketing expenses increased \$91.4 million during the year ended December 31, 2013 as compared to the prior year, primarily due to increased headcount that resulted in an increase of \$45.2 million in personnel related costs excluding stock-based compensation, an increase of \$11.4 million in stock-based compensation, an increase of \$5.2 million in overhead expenses and an increase of \$17.5 million in commissions expense. Commissions increased primarily due to growth in bookings and current year changes to our commission plans that place more emphasis on achieving quarterly targets and allow for participants in the plan to increase their compensation at a higher rate for exceeding their annual targets. Commissions and referral fees amounted to 10% and 8% of subscription revenues for the years ended December 31, 2013 and 2012, respectively. Marketing and event expenses increased \$10.7 million, which included a \$4.7 million increase in expenses related to our annual Knowledge user conference due to attendance more than doubling compared to the prior year.

Research and Development

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
Research and development	\$78,678	\$39,333	100	%
Percentage of revenues	18	% 16	%	
Headcount (at period end)	352	200	76	%

Research and development expenses increased \$39.3 million during the year ended December 31, 2013 as compared to the prior year, primarily due to increased headcount which resulted in an increase of \$23.9 million in personnel related costs excluding stock-based compensation, an increase of \$9.7 million in stock-based compensation, an increase of \$4.0 million in overhead expenses and an increase of \$1.5 million in outside services related to increased use of consultants.

General and Administrative

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
General and administrative	\$61,790	\$34,117	81	%
Percentage of revenues	14	% 16	%	
Headcount (at period end)	227	126	80	%

General and administrative expenses increased \$27.7 million during the year ended December 31, 2013 as compared to the prior year, primarily due to increased headcount which resulted in an increase of \$13.4 million in personnel related costs excluding stock-based compensation, an increase of \$8.8 million in stock-based compensation and an increase of \$2.8 million in overhead expenses. Outside services increased \$2.9 million primarily due to our international expansion and the acquisition of Mirror42 Holding B.V. The increase is also related to costs associated with our first full year of being a public company.

Stock-based Compensation

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
Cost of revenues:				
Subscription	\$8,434	\$3,929	115	%
Professional services and other	4,749	1,574	202	%

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Sales and marketing	21,609	10,189	112	%
Research and development	16,223	6,496	150	%
General and administrative	14,566	5,749	153	%
Total stock-based compensation	\$65,581	\$27,937	135	%
Percentage of revenues	15	% 11	%	

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Stock-based compensation increased \$37.6 million during the year ended December 31, 2013, compared to the prior year, primarily due to increased headcount and an increase in the weighted-average grant date fair value of stock awards. The new equity incentive awards granted in the year ended December 31, 2013 resulted in an increase of \$29.0 million in stock-based compensation. The weighted-average grant date exercise price per stock option share was \$38.07 and \$15.03 for the year ended December 31, 2013 and 2012, respectively. The weighted-average grant date fair value per restricted stock unit was \$38.15 and \$17.02 for the year ended December 31, 2013 and 2012, respectively.

In addition, stock-based compensation increased \$7.4 million related to equity incentive awards granted in the prior year, for which a partial year of expenses was recognized in the prior year and \$2.7 million related to our employee purchase plan which became effective on June 28, 2012. The increase in stock-based compensation was partially offset by stock awards forfeited in the current year and stock awards fully vesting in the current year.

Interest and Other Income (Expense), net

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
Interest expense related to the Notes	\$ (3,498)	\$ —	NM	
Interest income	1,053	351	200	%
Foreign currency exchange gain/(loss)	(2,493)	1,067	(334)%
Other	8	186	(96)%
Interest and other income/(expense), net	\$ (4,930)	\$ 1,604	NM	
Percentage of revenues	(1	)%	1	%

Interest and other income, net, decreased \$6.5 million during the year ended December 31, 2013 as compared to the prior year, primarily due to a loss from foreign currency transactions and \$3.5 million in amortization expense of debt discount and issuance costs related to our Notes issued in November 2013. We had a foreign currency transaction loss of \$2.5 million for the year ended December 31, 2013 as compared to a gain of \$1.1 million for the prior year, primarily due to the strengthening of the Euro against other major currencies and an increase in our foreign operations. The decrease was partially offset by an increase of \$0.7 million in interest income due to the higher investment balances during the year ended December 31, 2013 compared to the prior year.

Provision for Income Taxes

	Year Ended December 31		% Change	
	2013	2012		
	(dollars in thousands)			
Loss before income taxes	\$ (71,197)	\$ (35,980)	98	%
Provision for income taxes	2,511	1,368	84	%
Effective tax rate	(4	)%	(4)%

Our effective tax rate remained at (4)% during the years ended December 31, 2013 and 2012. Our tax expense increased \$1.1 million during the year ended December 31, 2013 as compared to the prior year due to a higher proportion of earnings in foreign jurisdictions with high statutory tax rates, a higher loss from U.S. operations, the tax effect of acquired companies, and the issuance of the Notes. See Note 16 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for our reconciliation of income taxes at the statutory federal rate to the provision for income taxes.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statements of operations. We have prepared the quarterly data on a consistent basis with the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. In the opinion of management, the financial information reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	For the Three Months Ended							
	Dec 30, 2014	Sep 30, 2014	June 30, 2014	March 31, 2014	Dec 30, 2013	Sep 30, 2013	June 30, 2013	March 31, 2013
	(in thousands, except per share data)							
Revenues:								
Subscription	\$ 166,751	\$ 150,367	\$ 132,724	\$ 117,375	\$ 104,878	\$ 92,992	\$ 80,376	\$ 71,558
Professional services and other	31,253	28,345	34,033	21,715	20,352	18,267	21,846	14,381
Total revenues	198,004	178,712	166,757	139,090	125,230	111,259	102,222	85,939
Cost of revenues:								
Subscription	40,330	37,925	33,243	31,189	25,968	23,429	20,219	18,312
Professional services and other	30,308	28,161	25,695	21,925	19,410	18,146	15,779	13,996
Total cost of revenues	70,638	66,086	58,938	53,114	45,378	41,575	35,998	32,308
Gross profit	127,366	112,626	107,819	85,976	79,852	69,684	66,224	53,631
Operating expenses:								
Sales and marketing	95,764	84,002	91,937	69,416	57,337	47,336	52,291	38,226
Research and development	42,026	39,683	35,439	31,110	23,869	20,819	17,951	16,039
General and administrative	26,260	23,440	24,914	21,631	18,007	16,179	15,325	12,279
Total operating expenses	164,050	147,125	152,290	122,157	99,213	84,334	85,567	66,544
Loss from operations	(36,684)	(34,499)	(44,471)	(36,181)	(19,361)	(14,650)	(19,343)	(12,913)
Interest and other income (expense), net	(6,562)	(5,949)	(5,231)	(5,963)	(4,326)	600	(1,323)	119
Loss before provision for income taxes	(43,246)	(40,448)	(49,702)	(42,144)	(23,687)	(14,050)	(20,666)	(12,794)
Provision for income taxes	1,417	602	661	1,167	545	663	739	564
Net loss	\$(44,663)	\$(41,050)	\$(50,363)	\$(43,311)	\$(24,232)	\$(14,713)	\$(21,405)	\$(13,358)

Net loss
attributable to
common
stockholders -
basic and
diluted
Net loss per
share
attributable to
common
stockholders -
basic and
diluted

	\$(44,663)	\$(41,050)	\$(50,363)	\$(43,311)	\$(24,232)	\$(14,713)	\$(21,405)	\$(13,358)
	\$(0.30)	\$(0.28)	\$(0.35)	\$(0.30)	\$(0.17)	\$(0.11)	\$(0.16)	\$(0.10)

Seasonality, Cyclicity and Quarterly Trends

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

Our revenues have increased over the periods presented due to increased sales to new customers, as well as upsells to existing customers. We have historically seen an increase in professional services and other revenues in the quarter ended June 30, and a corresponding decrease in professional services and other revenues in the quarter ended September 30 due to the revenues earned from our annual Knowledge user conference that occurs in the quarter ended June 30. Our operating expenses have increased over the periods presented primarily due to increases in headcount and other related expenses to support our growth. We have historically seen an increase in marketing expenses in the quarter ended June 30, and a corresponding decrease in marketing expenses in the quarter ended September 30 due to the expenses incurred for our annual Knowledge user conference. We anticipate operating expenses will continue to increase in future periods as we continue to focus on investing in the long-term growth of our business.

Liquidity and Capital Resources

	Year Ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Net cash provided by operating activities	\$ 138,900	\$ 81,746	\$ 48,766
Net cash used in investing activities	(316,928	) (402,795	) (239,149
Net cash provided by financing activities	70,772	568,570	241,839
Net increase (decrease) in cash and cash equivalents, net of impact of exchange rates on cash	(113,848	) 247,314	50,901

Our principal sources of liquidity are our cash and cash equivalents, investments, and cash generated from operations. As of December 31, 2014, we had \$668.8 million in cash and cash equivalents and short-term investments, of which \$78.4 million represented cash located overseas. In addition, we had \$266.8 million in long-term investments which provide additional capital resources.

In November 2013, we issued Notes with an aggregate principal amount of \$575.0 million and concurrently entered into a hedge, or Note Hedge, and warrant transaction, or Warrants. The net proceeds of this debt issuance are being used for general corporate purposes, including potential acquisitions and strategic transactions. The Warrants are exercisable at a strike price of \$107.46 per share. Upon conversion of the Notes, we may choose to pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock. As of December 31, 2014, the Notes were not convertible.

We anticipate our current cash and cash equivalents balance and cash generated from operations will be sufficient to meet our liquidity needs including the expansion of data centers, lease obligations, expenditures related to the growth of our headcount and the acquisition of fixed assets and investments in office facilities to accommodate our growth for at least the next 12 months. Whether these resources are adequate to meet our liquidity needs beyond that period will

depend on our growth, operating results, cash utilized for acquisitions, if any are consummated, and the capital expenditures required to meet possible increased demand for our services. If we require additional capital resources to grow our business at any time in the future, we may seek to finance our operations from the current funds available or seek additional equity or debt financing.

Operating Activities

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

Net cash provided by operating activities was \$138.9 million for the year ended December 31, 2014 compared to \$81.7 million for the prior year. The increase in operating cash flow was primarily due to an increased net loss offset by a substantial increase in non-cash adjustments to reconcile net loss to net cash provided by operations and the favorable impact on operating cash flow from changes in operating assets and liabilities. Net cash flow from the aggregate of changes in accounts receivable, deferred commissions and deferred revenue increased due to increased sales for the year ended December 31, 2014. The increase was partially offset by a decrease in net cash flows from the aggregate of changes in accrued liabilities, accounts payable and prepaid expenses due to the growth of our business and increased headcount of 54% for the year ended December 31, 2014.

Net cash provided by operating activities was \$81.7 million for the year ended December 31, 2013 compared to \$48.8 million for the prior year. The increase in operating cash flow was primarily due to an increased net loss offset by a substantial increase in non-cash adjustments to reconcile net loss to net cash provided by operations and the favorable impact on operating cash flow from changes in operating assets and liabilities. Net cash flow from the aggregate of changes in accounts receivable, deferred commissions and deferred revenue increased due to increased sales for the year ended December 31, 2013. The increase was offset by a decrease in net cash flows from the aggregate of changes in accrued liabilities, accounts payable and prepaid expenses due to the growth of our business and increased headcount of 70% for the year ended December 31, 2013.

Investing Activities

Net cash used in investing activities for the year ended December 31, 2014 was \$316.9 million compared to \$402.8 million for the prior year. The decrease in cash used in investing activities was mainly due to a decrease in the net purchases of investments of \$171.3 million. The decrease was offset by an increase of \$86.5 million in acquisition activity due to the Neebula acquisition in 2014.

Net cash used in investing activities for the year ended December 31, 2013 was \$402.8 million compared to \$239.1 million for the prior year. The increase in cash used in investing activities was mainly due to increases in the net purchases of investments of \$136.8 million and capital expenditures of \$13.3 million related to the purchase of cloud-based infrastructure hardware equipment to support the expansion of our data centers as well as investments in leasehold improvements, furniture and equipment to support our headcount growth. Additionally, in 2013 we paid \$13.3 million for the acquisition of Mirror42 Holding B.V.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2014 was \$70.8 million compared to \$568.6 million for the prior year. The decrease in cash provided by financing activities was primarily due to net proceeds of \$511.7 million from issuance of the Notes and Warrants and purchase of the Note Hedge in 2013. The decrease was offset by \$13.2 million increase in proceeds from the exercise of employee stock options and the Employee Stock Purchase Plan, or ESPP and related tax benefit.

Net cash provided by financing activities for the year ended December 31, 2013 was \$568.6 million compared to \$241.8 million for the prior year. The increase in cash provided by financing activities was primarily due to net proceeds of \$511.7 million from issuance of the Notes and Warrants and purchase of the Note Hedge, and \$38.8 million increase in proceeds from exercise of employee stock options and \$13.2 million proceeds from our ESPP. For the year ended December 31, 2012, we received \$169.8 million net proceeds from our IPO, \$50.6 million net proceeds from our follow-on offering, and \$17.8 million net proceeds from the issuance of common stock.

Contractual Obligations and Commitments

Contractual obligations represent future cash commitments and liabilities under agreements with third parties, and exclude orders for goods and services entered into in the normal course of business that are not enforceable or legally binding.

The following table represents our known contractual obligations as of December 31, 2014, aggregated by type:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
	(in thousands)				
Operating leases:					
Data centers ⁽¹⁾	\$20,009	\$9,561	\$9,186	\$1,238	\$24
Facilities space ⁽²⁾	263,563	15,511	52,872	51,337	143,843
Convertible Senior Notes	575,000	—	—	575,000	—
Other	4,876	297	1,018	1,018	2,543
Total contractual obligations	\$863,448	\$25,369	\$63,076	\$628,593	\$146,410

(1) Operating leases for data centers represent our principal commitment for co-location facilities for data center capacity.

(2) Operating leases for facilities space represent our principal commitments, which consists of obligations under office space leases.

In addition to the obligations in the table above, approximately \$2.9 million of unrecognized tax benefits have been recorded as liabilities as of December 31, 2014. It is uncertain as to if or when such amounts may be settled. We have also recorded a liability for potential penalties of \$0.2 million and interest of \$0.2 million related to these unrecognized tax benefits.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Significant Judgments and Estimates

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

from these estimates under different assumptions or conditions and such differences could be material.

While our significant accounting policies are more fully described in Note 2 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our audited consolidated financial statements.

Revenue Recognition

We derive our revenues from two sources: (i) subscriptions and (ii) professional services and other. Subscription revenues are primarily comprised of subscription fees that give customers access to the ordered subscription service, related support and updates to the subscribed service during the subscription term.

Our contracts typically do not give the customer the right to take possession of the software supporting the services. Professional services and other revenues consist of fees associated with the implementation and configuration of our services.

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Professional services and other revenues also include customer training and attendance and sponsorship fees for Knowledge, our annual user conference.

We commence revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service has been provided to the customer;
- The collection of related fees is reasonably assured; and
- The amount of fees to be paid by the customer is fixed or determinable.

We use a signed contract together with a signed order form or a purchase order, as evidence of an arrangement for a new customer. In subsequent transactions with an existing customer, including an upsell or a renewal, we consider the existing signed contract and either the new signed order form or new purchase order as evidence of an arrangement.

We recognize subscription revenues ratably over the contract term beginning on the commencement date of each contract, the date we make our services available to our customers. Once our services are available to customers, we record amounts due in accounts receivable and in deferred revenue. We price professional services primarily on a time-and-materials basis and recognize professional services revenues as the services are delivered using a proportional performance model. Such services are delivered over a short period of time. In instances where final acceptance of the services are required before revenues are recognized, we defer professional services revenues and the associated costs until all acceptance criteria have been met.

We assess collectibility based on a number of factors such as past collection history with the customer and creditworthiness of the customer. If we determine collectibility is not reasonably assured, we defer revenue recognition until collectibility becomes reasonably assured. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. Our arrangements do not include general rights of return.

We have multiple element arrangements comprised of subscription fees and professional services. We account for subscription and professional services revenues as separate units of accounting. To qualify as a separate unit of accounting, the delivered item must have value to the customer on a standalone basis. We have concluded that our subscription service has standalone value as it is routinely sold separately by us. In addition, the applications offered through this subscription service are fully functional without any additional development, modification or customization. We provide customers access to our subscription service at the beginning of the contract term. In determining whether professional services have standalone value, we considered the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. Our professional services, including implementation and configuration services, are not so unique and complex that other vendors cannot provide them. In some instances, customers independently contract with third-party vendors to do the implementation and we regularly outsource implementation services to contracted third-party vendors. As a result, we concluded professional services, including implementation and configuration services, have standalone value.

We determine the selling price of each deliverable in the arrangement using the selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is determined using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, the selling price is determined using the best estimate of selling price, or BESP. The selling price for each unit of accounting is based on the BESP since VSOE and TPE are not available for our subscription service or professional services and other. The BESP for each deliverable is determined primarily

by considering the historical selling price of these deliverables in similar transactions as well as other factors, including, but not limited to, market competition, review of stand-alone sales and current pricing practices. In determining the appropriate pricing structure, we consider the extent of competitive pricing of similar products and marketing analysis. The total arrangement fee for these multiple element arrangements is then allocated to the separate units of accounting based on the relative selling price. The BESP for our subscription service is based upon the historical selling price of these deliverables.

In limited circumstances, we grant certain customers the right to deploy our subscription service on the customers' own servers without significant penalty. These arrangements are subject to software revenue recognition guidance since the customer deploys our software. We have analyzed all of the elements in these particular multiple element arrangements and determined that we do not have sufficient VSOE of fair value to allocate revenue to our subscription service and professional services. Consequently, we defer all revenue and related costs under the arrangement until the last element in the transaction has been delivered or started to be delivered. Once the subscription service and the professional services have commenced, we recognize the entire fee and related costs from the arrangement ratably over the remaining period of the arrangement.

Deferred revenue consists primarily of payments received in advance of revenue recognition for our subscriptions and professional services and other revenues and is recognized as the revenue recognition criteria are met.

Deferred Commissions

Deferred commissions are the incremental selling costs that are directly associated with our customer contracts and consist of sales commissions paid to our direct sales force and referral fees paid to independent third-parties. The majority of commissions and referral fees are deferred and amortized on a straight-line basis over the non-cancelable terms of the related customer contracts. We include amortization of deferred commissions in sales and marketing expense in the consolidated statements of comprehensive loss. We believe this is the preferable method of accounting as the commission charges are so closely related to the revenue from the customer contracts that they should be recorded as an asset and charged to expense over the same period that the revenue is recognized.

Goodwill, Intangible Assets and Other Long Lived Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. We evaluate and test the recoverability of goodwill for impairment at least annually, during our fourth quarter, or more frequently if circumstances indicate that goodwill may not be recoverable. We perform the impairment testing by first assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of its reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform a two-step impairment test. The first step requires the identification of the reporting units and comparison of the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the second step of the impairment test is performed to compute the amount of the impairment. Under the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. We have determined that we have only one reporting unit. We did not recognize any impairment charges related to goodwill during the years ended December 31, 2014 and 2013.

Intangible assets are amortized over their useful lives ranging from 18 months to seven years. Each period we evaluate the estimated remaining useful life of purchased intangible assets to determine whether events or changes in circumstances warrant a revision to the remaining period of amortization. We periodically review the carrying amounts of these assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We measure the recoverability of these assets by comparing the carrying amount of each asset to the future undiscounted cash flows we expect the asset to generate. If we consider any of these assets to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value.

Screening for and assessing whether impairment indicators exist or if events or changes in circumstances have occurred, including market conditions, operating fundamentals, competition and general economic conditions, requires significant judgment. Additionally, changes in the technology industry occur frequently and quickly. Therefore, there can be no assurance that a charge to operating expenses will not occur as a result of future goodwill, intangible assets and other long-lived assets impairment tests.

Stock-based Compensation

We recognize compensation expense related to stock options and restricted stock units, or RSUs, on a straight-line basis over the requisite service period, which is generally the vesting term of four years. For RSUs granted with a performance condition, the expenses are recognized on a graded vesting basis over the vesting period, after assessing

the probability of achieving requisite performance criteria. This has the impact of greater stock-based compensation expense during the initial years of the vesting period as stock-based compensation cost is recognized over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. We recognize compensation expense related to shares issued pursuant to the ESPP, on a straight-line basis over the offering period. We estimate the fair value of options using the Black-Scholes options pricing model and fair value of RSU awards using the fair value of our common stock on the date of grant. We recognize compensation expense net of estimated forfeiture activity, which is based on historical forfeiture rates. We evaluate the forfeiture rates at least annually, or when events or circumstances indicate a change may be needed. This may cause a fluctuation in our stock-based compensation in the period of change.

Income Taxes

We use the asset and liability method of accounting for income taxes, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. We recognize the effect on deferred tax assets and liabilities of a change in tax rates as income and expense in the period that includes the enactment date. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. In determining the need for a valuation allowance, we consider future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law, carry-forward periods, and prudent and feasible tax planning strategies.

Our tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. We recognize the tax benefit of an uncertain tax position only if it is more likely than not the position is sustainable upon examination by the taxing authority, based on the technical merits. We measure the tax benefit recognized as the largest amount of benefit which is more likely than not to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our tax provision. Significant judgment is required to evaluate uncertain tax positions. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law or guidance, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in our income tax expense in the period in which we make the change, which could have a material impact on our effective tax rate and operating results.

We calculate the current and deferred income tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years and record adjustments based on filed income tax returns when identified. The amount of income taxes paid is subject to examination by U.S. federal, state and foreign tax authorities. The estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. To the extent the assessment of such tax position changes, we record the change in estimate in the period in which we make the determination.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued an update to ASC 606 Revenue from Contracts with Customers, or ASC 606, that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. This guidance will become effective for us for our interim and annual reporting periods beginning January 1, 2017. We are currently evaluating the impact of this update on our consolidated financial statements.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro and British Pound Sterling. We are a net receiver of Euro and therefore are adversely affected by a strengthening of the U.S. dollar relative to these currencies. Revenues denominated in U.S.

dollar as a percentage of total revenue was 72%, 77% and 80% during the years ended December 31, 2014, 2013 and 2012, respectively. Changes in exchange rates have recently and may continue to negatively affect our revenues as denominated in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net loss as a result of transaction gains or losses related to remeasuring certain monetary assets and liabilities that are denominated in currencies other than the functional currency of the entities in which they are recorded. We are unable to accurately forecast the changes in exchange rates and consequent gains and losses from such fluctuations. We recognized a net foreign currency gain of \$2.5 million for the year ended December 31, 2014, and net foreign currency losses of \$2.5 million and \$1.3 million for the years ended December 31, 2013 and 2012, respectively. While we have not engaged in the hedging of our foreign currency transactions to date, we may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar.

We estimate that a decline in the value of the U.S. dollar as measured against the other currencies in which our transactions are denominated would have widened our operating loss in the year ended December 31, 2014. A hypothetical 10% decrease in the U.S. dollar against other currencies would result in an approximately \$3.5 million increase in operating loss for the year ended December 31, 2014. This analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

Interest Rate Sensitivity

In February 2012, we began investing in corporate debt securities. The primary objectives of our investment activities are the preservation of capital and support of our liquidity requirements. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuations in interest rates, which may affect our interest income and the fair market value of our investments. As of December 31, 2014, a hypothetical 100 basis point increase in interest rates would result in an approximate \$5.6 million decline of the fair value of our available-for-sale securities and a hypothetical 100 basis point decrease in interest rates would result in an approximate \$5.0 million increase of the fair value of our available-for-sale securities. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

Market Risk

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SERVICENOW, INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ServiceNow, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive loss, of changes in convertible preferred stock and stockholders' equity (deficit), and of cash flows present fairly, in all material respects, the financial position of ServiceNow, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2014 and 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 27, 2015

SERVICENOW, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$252,455	\$366,303
Short-term investments	416,336	268,251
Accounts receivable, net	159,171	108,339
Current portion of deferred commissions	43,232	31,123
Prepaid expenses and other current assets	35,792	23,733
Total current assets	906,986	797,749
Deferred commissions, less current portion	29,453	21,318
Long-term investments	266,772	255,356
Property and equipment, net	104,237	75,560
Intangible assets, net	54,526	5,796
Goodwill	55,016	8,724
Other assets	8,089	3,973
Total assets	\$1,425,079	\$1,168,476
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$17,829	\$7,405
Accrued expenses and other current liabilities	79,497	68,130
Current portion of deferred revenue	409,671	252,553
Total current liabilities	506,997	328,088
Deferred revenue, less current portion	12,567	14,169
Convertible senior notes, net	443,764	414,777
Other long-term liabilities	33,076	17,183
Total liabilities	996,404	774,217
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock \$0.001 par value; 600,000,000 shares authorized; 149,509,092 and 140,354,605 shares issued and outstanding at December 31, 2014 and 2013, respectively	150	140
Additional paid-in capital	799,221	573,791
Accumulated other comprehensive loss	(12,113	) (476
Accumulated deficit	(358,583	) (179,196
Total stockholders' equity	428,675	394,259
Total liabilities and stockholders' equity	\$1,425,079	\$1,168,476

See accompanying notes to consolidated financial statements

SERVICENOW, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2014	2013	2012
Revenues:			
Subscription	\$567,217	\$349,804	\$204,526
Professional services and other	115,346	74,846	39,186
Total revenues	682,563	424,650	243,712
Cost of revenues ⁽¹⁾ :			
Subscription	142,687	87,928	63,258
Professional services and other	106,089	67,331	40,751
Total cost of revenues	248,776	155,259	104,009
Gross profit	433,787	269,391	139,703
Operating expenses ⁽¹⁾ :			
Sales and marketing	341,119	195,190	103,837
Research and development	148,258	78,678	39,333
General and administrative	96,245	61,790	34,117
Total operating expenses	585,622	335,658	177,287
Loss from operations	(151,835	) (66,267	) (37,584
Interest and other income (expense), net	(23,705	) (4,930	) 1,604
Loss before provision for income taxes	(175,540	) (71,197	) (35,980
Provision for income taxes	3,847	2,511	1,368
Net loss	\$(179,387	) \$(73,708	) \$(37,348
Net loss attributable to common stockholders - basic and diluted:	\$(179,387	) \$(73,708	) \$(37,656
Net loss per share attributable to common stockholders - basic and diluted:	\$(1.23	) \$(0.54	) \$(0.51
Weighted-average shares used to compute net loss per share attributable to common stockholders - basic and diluted:	145,355,543	135,415,809	73,908,631
Other comprehensive loss:			
Foreign currency translation adjustments	\$(11,027	) \$(303	) \$(830
Unrealized loss on investments	(610	) (137	) (105
Other comprehensive loss, net of tax	(11,637	) (440	) (935
Comprehensive loss	\$(191,024	) \$(74,148	) \$(38,283

(1) Includes stock-based compensation as follows:

	Year Ended December 31,		
	2014	2013	2012
Cost of revenues:			
Subscription	\$14,988	\$8,434	\$3,929
Professional services and other	13,116	4,749	1,574
Sales and marketing	54,006	21,609	10,189
Research and development	42,535	16,223	6,496
General and administrative	29,674	14,566	5,749

See accompanying notes to consolidated financial statements

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SERVICENOW, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands, except share data)

	Series C Redeemable Convertible Preferred Stock		Series A Redeemable Convertible Preferred Stock		Series B Redeemable Convertible Preferred Stock		Series D Convertible Preferred Stock		Common Stock		A P C
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
Balance at December 31, 2011	983,606	\$5,957	2,500,000	\$3,805	3,988,636	\$7,165	2,990,635	\$51,245	22,229,978	\$22	\$
Issuance of common stock upon initial public offering, net of offering costs	—	—	—	—	—	—	—	—	10,350,000	10	1
Conversion of preferred stock to common stock upon initial public offering	(983,606)	(5,966)	(2,500,000)	(3,905)	(3,988,636)	(7,364)	(2,990,635)	(51,245)	83,703,016	84	6
Issuance of common stock upon follow-on offering, net of issuance costs	—	—	—	—	—	—	—	—	1,897,500	2	4
Common stock issued under employee stock plans	—	—	—	—	—	—	—	—	6,654,558	6	4
Issuance of common stock to third party investors, net of issuance costs	—	—	—	—	—	—	—	—	1,750,980	2	1
Tax benefit from employee stock plans	—	—	—	—	—	—	—	—	—	—	1
Vesting of early exercised stock options	—	—	—	—	—	—	—	—	—	—	1
Buyback of restricted	—	—	—	—	—	—	—	—	(34,168)	—	—

common stock											
Buyback and retirement of common stock	—	—	—	—	—	—	—	—	(184,164))	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	2
Accretion of preferred stock dividends and issuance costs	—	9	—	100	—	199	—	—	—	—	(
Other comprehensive loss, net	—	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2012	—	\$—	—	\$—	—	\$—	—	\$—	126,367,700	\$	126 \$

SERVICENOW, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands, except share data)

	Series C Redeemable Convertible Preferred Stock	Series A Redeemable Convertible Preferred Stock	Series B Convertible Preferred Stock	Series D Convertible Preferred Stock	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)	
Common stock issued under employee stock plans	—	—	—	—	13,986,905	14	56,484	—	—	56,498	
Tax benefit from employee stock plans	—	—	—	—	—	—	1,658	—	—	1,658	
Vesting of early exercised stock options	—	—	—	—	—	—	381	—	—	381	
Stock-based compensation	—	—	—	—	—	—	65,694	—	—	65,694	
Equity component of the convertible notes, net	—	—	—	—	—	—	152,061	—	—	152,061	
Purchase of convertible note hedge	—	—	—	—	—	—	(135,815)	—	—	(135,815)	
Sales of warrants	—	—	—	—	—	—	84,525	—	—	84,525	
Other comprehensive loss, net	—	—	—	—	—	—	—	—	(440)	(440)	
Net loss	—	—	—	—	—	—	—	(73,708)	—	(73,708)	
Balance at December 31, 2013	—	\$—	\$—	\$—	\$—	140,354,605	\$ 140	\$ 573,791	\$ (179,196)	\$ (476)	\$ 394,259
Common stock issued under employee stock plans	—	—	—	—	9,154,487	10	68,723	—	—	68,733	
Tax benefit from employee stock plans	—	—	—	—	—	—	2,001	—	—	2,001	
Vesting of early exercised	—	—	—	—	—	—	167	—	—	167	

stock options												
Stock-based compensation	—	—	—	—	—	—	154,539	—	—	154,539		
Other comprehensive loss, net	—	—	—	—	—	—	—	—	(11,637)	(11,637)		
Net loss	—	—	—	—	—	—	—	(179,387)	—	(179,387)		
Balance at												
December 31, 2014	—	\$—	—	\$—	—	\$—	149,509,092	\$ 150	\$ 799,221	\$(358,583)	\$(12,113)	\$ 428,675

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net loss	\$(179,387	) \$(73,708	) \$(37,348
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	42,059	24,152	13,506
Amortization of premiums on investments	8,084	4,758	1,337
Amortization of deferred commissions	51,270	29,364	13,710
Amortization of debt discount and issuance costs	29,059	3,498	—
Stock-based compensation	154,319	65,581	27,937
Tax benefit from employee stock plans	(2,037	) (1,658	) (1,694
Deferred income tax	(1,198	) (231	) (746
Other	(4,469	) 558	2,850
Changes in operating assets and liabilities:			
Accounts receivable	(56,785	) (29,506	) (33,341
Deferred commissions	(73,786	) (54,943	) (29,175
Prepaid expenses and other assets	(5,540	) 3,471	(2,904
Accounts payable	10,223	(252	) 4,887
Deferred revenue	168,393	94,405	64,845
Accrued expenses and other liabilities	(1,305	) 16,257	24,902
Net cash provided by operating activities	138,900	81,746	48,766
Cash flows from investing activities:			
Purchases of property and equipment	(54,379	) (55,321	) (42,066
Acquisition, net of cash acquired	(99,813	) (13,330) —
Purchases of investments	(521,393	) (570,679	) (240,626
Sale of investments	166,997	55,158	1,025
Maturities of investments	191,715	181,554	42,473
Restricted cash	(55	) (177	) 45
Net cash used in investing activities	(316,928	) (402,795	) (239,149
Cash flows from financing activities:			
Net proceeds from initial public offering	—	—	169,784
Net proceeds from (offering costs paid in connection with) follow-on offering	—	(698	) 50,561
Net proceeds from borrowings on convertible senior notes	—	562,941	—
Proceeds from issuance of warrants	—	84,525	—
Purchase of convertible note hedge	—	(135,815) —
Proceeds from employee stock plans	68,735	55,959	3,912
Tax benefit from employee stock plans	2,037	1,658	1,694
Net proceeds from issuance of common stock	—	—	17,848
Purchases of common stock and restricted stock from stockholders	—	—	(1,960
Net cash provided by financing activities	70,772	568,570	241,839
Foreign currency effect on cash and cash equivalents	(6,592	) (207	) (555
Net increase (decrease) in cash and cash equivalents	(113,848) 247,314	50,901
Cash and cash equivalents at beginning of period	366,303	118,989	68,088

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Cash and cash equivalents at end of period	\$252,455	\$366,303	\$118,989
Supplemental disclosures of other cash flow information:			
Income taxes paid	\$12,604	\$920	\$1,524
Non-cash investing and financing activities:			
Conversion of preferred stock to common stock	\$—	\$—	\$68,480
Property and equipment included in accounts payable, accrued expenses and other liabilities	16,474	3,741	1,234
Exercise of stock options included in prepaid and other assets	4	10	1,089
Offering costs not yet paid	—	—	711

(1) Includes \$5.3 million payment received from our founder during the year ended December 31, 2012. Refer to Note 17.

See accompanying notes to consolidated financial statements

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SERVICENOW, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of the Business

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

(2) Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Segments

We define the term “chief operating decision maker” to be our Chief Executive Officer. Our chief operating decision maker allocates resources and assesses financial performance based upon discrete financial information at the consolidated level. Accordingly, we have determined that we operate in a single reporting segment.

Foreign Currency Translation

The functional currencies for our foreign subsidiaries are primarily their local currencies. Assets and liabilities of the wholly-owned foreign subsidiaries are translated into U.S. dollars at exchange rates in effect at each period end. Amounts classified in stockholders’ equity are translated at historical exchange rates. Revenues and expenses are translated at the average exchange rates during the period. The resulting translation adjustments are recorded in accumulated other comprehensive loss as a component of stockholders’ equity. Foreign currency transaction gains and losses are included in interest and other income (expense), net within the consolidated statements of comprehensive loss.

Allocation of Overhead Costs

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

Revenue Recognition

We derive our revenues from two sources: (i) subscriptions and (ii) professional services and other. Subscription revenues are primarily comprised of subscription fees that give customers access to the ordered subscription service, related support and updates to the subscribed service during the subscription term.

Our contracts typically do not give the customer the right to take possession of the software supporting the services. Professional services and other revenues consist of fees associated with the implementation and configuration of our services. Professional services and other revenues also include customer training and attendance and sponsorship fees for Knowledge, our annual user conference.

We commence revenue recognition when all of the following conditions are met:

- There is persuasive evidence of an arrangement;
- The service has been provided to the customer;
- The collection of related fees is reasonably assured; and

- The amount of fees to be paid by the customer is fixed or determinable.

We recognize subscription revenues ratably over the contract term beginning on the commencement date of each contract, the date we make our services available to our customers. Once our services are available to customers, we record amounts due in accounts receivable and in deferred revenue.

We recognize professional services revenues as the services are delivered using a proportional performance model. Such services are delivered over a short period of time. In instances where final acceptance of the services are required before revenues are recognized, we defer professional services revenues and the associated costs until all acceptance criteria have been met.

We have multiple element arrangements comprised of subscription fees and professional services. In October 2009, the Financial Accounting Standards Board, or FASB, ratified authoritative accounting guidance regarding revenue recognition for arrangements with multiple deliverables effective for fiscal periods beginning on or after June 15, 2010. Upon adoption of this authoritative accounting guidance, we began to account for subscription and professional services revenues as separate units of accounting. To qualify as a separate unit of accounting, the delivered item must have value to the customer on a standalone basis. We have concluded that our subscription service has standalone value as it is routinely sold separately by us. In addition, the applications offered through this subscription service are fully functional without any additional development, modification or customization. We provide customers access to our subscription service at the beginning of the contract term. In determining whether professional services have standalone value, we considered the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. Our professional services, including implementation and configuration services, are not so unique and complex that other vendors cannot provide them. In some instances, customers independently contract with third-party vendors to do the implementation and we regularly outsource implementation services to contracted third-party vendors. As a result, we concluded professional services, including implementation and configuration services, have standalone value.

We determine the selling price of each deliverable in the arrangement using the selling price hierarchy. Under the selling price hierarchy, the selling price for each deliverable is determined using vendor-specific objective evidence, or VSOE, of selling price or third-party evidence, or TPE, of selling price if VSOE does not exist. If neither VSOE nor TPE of selling price exists for a deliverable, the selling price is determined using the best estimate of selling price, or BEBP. The selling price for each unit of accounting is based on the BEBP since VSOE and TPE are not available for our subscription service or professional services and other. The BEBP for each deliverable is determined primarily by considering the historical selling price of these deliverables in similar transactions as well as other factors, including, but not limited to, market competition, review of stand-alone sales and current pricing practices. In determining the appropriate pricing structure, we consider the extent of competitive pricing of similar products and marketing analysis. The total arrangement fee for these multiple element arrangements is then allocated to the separate units of accounting based on the relative selling price. The BEBP for our subscription service is based upon the historical selling price of these deliverables.

In limited circumstances, we grant certain customers the right to deploy our subscription service on the customers' own servers without significant penalty. These arrangements are subject to software revenue recognition guidance since the customer deploys our software. We have analyzed all of the elements in these particular multiple element arrangements and determined that we do not have sufficient VSOE of fair value to allocate revenue to our subscription service and professional services. Consequently, we defer all revenue and related costs under the arrangement until the last element in the transaction has been delivered or started to be delivered. Once the subscription service and the professional services have commenced, we recognize the entire fee and related costs from the arrangement ratably over the remaining period of the arrangement.

Deferred revenue consists primarily of payments received in advance of revenue recognition for our subscriptions and professional services and other revenues and is recognized as the revenue recognition criteria are met.

Deferred Commissions

Deferred commissions are the incremental selling costs that are directly associated with our customer contracts and consist of sales commissions paid to our direct sales force and referral fees paid to independent third-parties. The majority of commissions and referral fees are deferred and amortized on a straight-line basis over the terms of the related customer contracts. We include amortization of deferred commissions in sales and marketing expense in the consolidated statements of comprehensive loss.

Fair Value Measurements

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized in the financial statements on a non-recurring basis or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We use a fair value hierarchy that is based on three levels of inputs, of which the first two are considered observable and the last unobservable. The three levels of the fair value hierarchy are as follows:

Level 1—Quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access;

Level 2—Inputs other than Level 1 that are directly or indirectly observable, such as quoted prices for identical or similar assets and liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, such as interest rates, yield curves and foreign currency spot rates; and

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

Investments

Investments consist of commercial paper, corporate notes and bonds, certificates of deposit and U.S. government agency securities. We classify investments as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive loss, a component of stockholders' equity. We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in interest and other income (expense), net in the consolidated statements of comprehensive loss.

Accounts Receivable

We record trade accounts receivable at the net invoice value and such receivables are non-interest bearing. We consider receivables past due based on the contractual payment terms. We review our exposure to accounts receivable and reserve for specific amounts if collectibility is no longer reasonably assured.

Property and Equipment

Property and equipment, net, are stated at cost, subject to review of impairment, and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and software	3—5 years
Furniture and fixtures	3—5 years

Leasehold improvements shorter of the lease term or estimated useful life

When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating expenses. Repairs and maintenance expenses are charged to our statements of comprehensive loss as incurred.

Capitalized Software Costs

Costs incurred to develop our internal administration, finance and accounting systems are capitalized during the application development stage and amortized over the software's estimated useful life of three to five years.

Leases

Leases are reviewed and classified as capital or operating at their inception. For leases that contain rent escalations or periods during the lease term where rent is not required, we recognize rent expense based on allocating the total rent payable on a straight-line basis over the term of the lease excluding lease extension periods. The difference between rent payments and straight-line rent expense is recorded as deferred rent in the consolidated balance sheets. Deferred rent that will be recognized during the ensuing 12-month period is recorded as the current portion of deferred rent and the remainder is recorded as long-term deferred rent.

Goodwill, Intangible Assets and Other Long Lived Assets

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. We evaluate and test the recoverability of goodwill for impairment at least annually, during the fourth quarter, or more frequently if circumstances indicate that goodwill may not be recoverable.

Intangible assets are amortized over their useful lives ranging from 18 months to seven years. Each period we evaluate the estimated remaining useful life of purchased intangible assets to determine whether events or changes in circumstances warrant a revision to the remaining period of amortization.

We periodically review the carrying amounts of these assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We measure the recoverability of these assets by comparing the carrying amount of each asset to the future undiscounted cash flows we expect the asset to generate. If we consider any of these assets to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair value.

Convertible Preferred Stock

Prior to the closing of the initial public offering, or IPO, we had four series of convertible preferred stock outstanding. We recorded the convertible preferred stock at fair value on the dates of issuance, net of issuance costs. We classified the convertible preferred stock outside of stockholders' equity because the shares contained liquidation features that were not solely within our control.

Upon the closing of our IPO on July 5, 2012, all of the outstanding 10,462,877 shares of convertible preferred stock automatically converted into an aggregate of 83,703,016 shares of common stock. As of December 31, 2014 and 2013, we had no shares of preferred stock outstanding.

Stock-based Compensation

We recognize compensation expense related to stock options and restricted stock units, or RSUs, on a straight-line basis over the requisite service period, which is generally the vesting term of four years. For RSUs granted with a performance condition, the expenses are recognized on a graded vesting basis over the vesting period, after assessing the probability of achieving requisite performance criteria. This has the impact of greater stock-based compensation expense during the initial years of the vesting period as stock-based compensation cost is recognized over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. We recognize compensation expense related to shares issued pursuant to the employee stock purchase plan, or ESPP, on a straight-line basis over the offering period. We estimate the fair value of options using the Black-Scholes options pricing model and fair value of RSUs using the fair value of our common stock on the date of grant. We recognize compensation expense net of estimated forfeiture activity, which is based on historical forfeiture rates.

Net Loss Per Share Attributable to Common Stockholders

We compute net income (loss) attributable to common stockholders using the two-class method required for participating securities. We consider our convertible preferred stock that was outstanding prior to the close of our IPO and shares of common stock subject to repurchase resulting from the early exercise of stock options to be participating securities since they contain non-forfeitable rights to dividends or dividend equivalents in the event we declare a dividend for common stock. In accordance with the two-class method, earnings allocated to these participating securities, are subtracted from net income after deducting preferred stock dividends and accretion to the redemption value of the Series A, Series B and Series C to determine total undistributed earnings to be allocated to common stockholders. The holders of our convertible preferred stock did not have a contractual obligation to share in our net losses and such shares were excluded from the computation of basic earnings per share in periods of net loss.

Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average common shares outstanding. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, adjusted for the effects of dilutive common shares, which are comprised of outstanding common stock options, convertible preferred stock, RSUs, common stock subject to repurchase, ESPP obligations, convertible senior notes and warrants. The dilutive potential common shares are computed using the treasury stock method or the as-if converted method, as applicable. In periods where the effect of the conversion of preferred stock is dilutive, net income (loss) attributable to common stockholders is adjusted by the associated preferred dividends and accretions. The effects of outstanding common stock options, convertible preferred stock, RSUs, common stock subject to repurchase, ESPP obligations, convertible senior notes and warrants are excluded from the computation of diluted net income (loss) per common share in periods in which the effect would be antidilutive.

Concentration of Credit Risk and Significant Customers

Financial instruments potentially exposing us to credit risk consist primarily of cash, cash equivalents, investments, accounts receivable. We maintain cash, cash equivalents and investments at financial institutions that management believes are high credit, quality financial institutions. We invest in securities with a minimum rating of A by Standard & Poor's and A-2 by Moody's. We are also exposed to credit risk under the convertible note hedge (the "Note Hedge") transactions that may result from counterparties' non-performance.

Credit risk arising from accounts receivable is mitigated due to our large number of customers and their dispersion across various industries and geographies. As of December 31, 2014 and 2013, there were no customers that represented more than 10% of our accounts receivable balance. There were no customers that individually exceeded 10% of our revenues in any of the periods presented.

We review the composition of the accounts receivable balance, historical write-off experience and the potential risk of loss associated with delinquent accounts to determine if an allowance for doubtful accounts is necessary. Individual accounts receivable are written off when we become aware of a specific customer's inability to meet its financial obligation, and all collection efforts are exhausted. The following table presents the changes in the allowance for doubtful accounts (in thousands):

	Balance at Beginning of Year	Additions (deductions): Charged to Operations	Additions (deductions): Charged to Deferred Revenue	Less: Write-offs	Balance at End of Year
Year ended December 31, 2014 Allowance for doubtful accounts	\$1,143	395	(523	) 206	\$809
Year ended December 31, 2013 Allowance for doubtful accounts	\$742	(43	) 946	502	\$1,143

Warranties and Indemnification

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

We include service level commitments to our customers that permit those customers to receive credits in the event we fail to meet those levels. We establish an accrual based on historical credits paid and an evaluation of the performance of our services including an assessment of the impact, if any, of any known service disruptions. Service level credit

accrual charges are recorded against revenue. The following table presents the changes in the service level credit accrual (in thousands):

	Balance at Beginning of Year	Additions: Charged Against Revenue	Less: Usage	Balance at End of Year
Year ended December 31, 2014				
Service level credit accrual	\$648	481	201	\$928
Year ended December 31, 2013				
Service level credit accrual	\$1,196	430	978	\$648

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

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

Income Taxes

We use the asset and liability method of accounting for income taxes, in which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. We recognize the effect on deferred tax assets and liabilities of a change in tax rates as income and expense in the period that includes the enactment date. A valuation allowance is established if it is more likely than not that all or a portion of the deferred tax asset will not be realized. In determining the need for a valuation allowance, we consider future growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, historical earnings, taxable income in prior years, if carryback is permitted under the law, carry-forward periods, and prudent and feasible tax planning strategies.

Our tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. We recognize the tax benefit of an uncertain tax position only if it is more likely than not the position is sustainable upon examination by the taxing authority, based on the technical merits. We measure the tax benefit recognized as the largest amount of benefit which is more likely than not to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our tax provision.

We calculate the current and deferred income tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed in subsequent years and record adjustments based on filed income tax returns when identified. The amount of income taxes paid is subject to examination by U.S. federal, state and foreign tax authorities. The estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time. To the extent the assessment of such tax position changes, we record the change in estimate in the period in which we make the determination.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued an update to ASC 606 Revenue from Contracts with Customers, or ASC 606, that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. This update should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. This guidance will become effective for us for our interim and annual reporting periods beginning January 1, 2017. We are currently evaluating the impact of this update on our consolidated financial statements.

(3) Investments

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

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	\$8,195	\$1	\$—	\$8,196
Corporate notes and bonds	554,421	56	(845	) 553,632
Certificates of deposit	27,251	8	(2	) 27,257
U.S. government agency securities	94,093	2	(72	) 94,023
Total available-for-sale securities	\$683,960	\$67	\$(919	) \$683,108

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	\$124,330	\$10	\$(21	) \$124,319
Corporate notes and bonds	399,519	129	(360	) 399,288
Total available-for-sale securities	\$523,849	\$139	\$(381	) \$523,607

As of December 31, 2014, the contractual maturities of our investments did not exceed 24 months. The fair values of available-for-sale investments, by remaining contractual maturity, are as follows (in thousands):

	December 31, 2014
Due in 1 year or less	\$416,336
Due in 1 year through 2 years	266,772
Total	\$683,108

We had certain available-for-sale securities in a gross unrealized loss position, substantially all of which had been in such position for less than 12 months. There were no impairments considered "other-than-temporary" as it is more likely than not we will hold the securities until maturity or a recovery of the cost basis. The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment types (in thousands):

	December 31, 2014		December 31, 2013	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial Paper	—	—	81,467	(21
Corporate notes and bonds	436,140	(845	) 293,642	(360
Certificates of deposit	7,999	(2) —	—
U.S. government agency securities	80,014	(72) —	—
Total	\$524,153	\$(919	) \$375,109	\$(381

As of December 31, 2014, we had a total of 283 available-for-sale securities in an unrealized loss position.

(4) Fair Value Measurements

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Cash	\$201,314	\$—	\$—	\$201,314
Money market funds	46,541	—	—	46,541
Commercial paper	—	4,600	—	4,600
Short-term investments:				
Commercial paper	—	8,196	—	8,196
Corporate notes and bonds	—	342,864	—	342,864
Certificates of deposit	—	25,258	—	25,258
U.S. government agency securities	—	40,018	—	40,018
Long-term investments:				
Corporate notes and bonds	—	210,768	—	210,768
Certificates of deposit	—	1,999	—	1,999
U.S. government agency securities	—	54,005	—	54,005
Total	\$247,855	\$687,708	\$—	\$935,563

The following table presents our fair value hierarchy for our assets and liabilities measured at fair value on a recurring basis at December 31, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Cash	\$69,333	\$—	\$—	\$69,333
Money market funds	35,248	—	—	35,248
Commercial paper	—	261,722	—	261,722
Short-term investments:				
Commercial paper	—	124,319	—	124,319
Corporate notes and bonds	—	143,932	—	143,932
Long-term investments:				
Corporate notes and bonds	—	255,356	—	255,356
Total	\$104,581	\$785,329	\$—	\$889,910

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

(5) Acquisitions

Neebula Systems Ltd.

On July 11, 2014, we completed the acquisition of a privately-held company, Neebula Systems Ltd., or Neebula, by acquiring all issued and outstanding common shares of Neebula for approximately \$100 million in an all-cash transaction. Neebula's flagship product, ServiceWatch, automates the discovery, mapping and monitoring of IT-enabled enterprise services. The acquisition will expand the overall capabilities of our IT operations management offerings. The following table summarizes the allocation of the purchase price to the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date:

	Purchase Price Allocation (in thousands)	Useful Life (in years)
Net tangible assets acquired	\$ 102	
Intangible assets:		
Developed technology	56,200	5.5
Order backlog	600	1.5
Trade names	300	1.5
Goodwill	53,788	
Net deferred tax liabilities ⁽¹⁾	(10,527)
Total purchase price	\$ 100,463	

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

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. We believe the goodwill represents the synergies expected from expanded market opportunities when integrating Neebula technologies with our offerings. The goodwill balance is not deductible for U.S. income tax purposes. Acquisition-related costs of \$1.2 million are primarily included in general and administrative expenses on our consolidated statements of comprehensive loss.

The results of operations of Neebula have been included in our consolidated financial statements from the date of purchase. The following pro forma consolidated financial information combines the unaudited results of operations for us and Neebula for the year ended December 31, 2014 and 2013, as if the acquisition of Neebula had occurred on January 1, 2013 (in thousands, except share and per share data):

	Year Ended December 31,	
	2014	2013
Revenue	\$683,426	\$425,515
Net loss	\$(189,457	) \$(89,871
Weighted-average shares used to compute net loss per share attributable to common stockholders - basic and diluted	145,355,543	135,415,809
Net loss per share attributable to common stockholders - basic and diluted	\$(1.30	) \$(0.66

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

Mirror42 Holding B.V.

On July 1, 2013, we acquired all the outstanding stock of Mirror42 Holding B.V., a cloud-based performance analytics company, for total cash consideration of \$13.3 million. We believe this acquisition accelerates our ability to deliver on enterprise requirements for advanced business intelligence.

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

	Purchase Price Allocation (in thousands)	Useful Life (in years)
Net tangible liabilities acquired	\$(595)
Intangible assets:		
Developed technology	5,530	4
Contracts	297	1.5
Non-compete agreements	31	1.5
Goodwill	8,218	
Net deferred tax liabilities	(139)
Total purchase price	\$13,342	

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. Management believes that the goodwill represents the synergies expected from expanded market opportunities when integrating the Mirror42 Holding B.V.'s technologies with our offerings. \$8.1 million of the goodwill balance is deductible for income tax purposes.

The results of operations of Mirror42 Holding B.V. described above have been included in our consolidated financial statements from the date of purchase. Our business combination did not have a material impact on our consolidated financial statements, and therefore pro forma disclosures have not been presented.

(6) Goodwill and Intangible Assets

Goodwill balances are presented below (in thousands):

	Carrying Amount
Balance as of December 31, 2013	\$8,724
Goodwill acquired	53,788
Foreign currency translation adjustments	(7,496
Balance as of December 31, 2014	\$55,016

Intangible assets consisted of the following (in thousands):

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

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	\$5,783	\$(723)	) \$5,060
Other acquisition-related intangible assets	348	(115)	) 233
Acquisition-related intangible assets	6,131	(838)	) 5,293
Other intangible assets	650	(147)	) 503
Total intangible assets	\$6,781	\$(985)	) \$5,796

Amortization expense for intangible assets was approximately \$6.8 million, \$0.9 million and \$0.1 million, respectively, for the years ended December 31, 2014, 2013 and 2012.

The following table presents the estimated future amortization expense related to intangible assets held at December 31, 2014 (in thousands):

Years Ending December 31,	Acquisition-related	Other	Total
	intangible assets	intangible assets	
2015	\$11,853	\$199	\$12,052
2016	11,285	199	11,484
2017	10,575	199	10,774
2018	9,882	119	10,001
2019	9,882	39	9,921
Thereafter	294	—	294
Total future amortization expense	\$53,771	\$755	\$54,526

(7) Property and Equipment

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

	December 31,	
	2014	2013
Computer equipment and software	\$128,546	\$90,617
Furniture and fixtures	18,253	13,751
Leasehold improvements	14,929	8,371
Construction in progress	9,762	928
	171,490	113,667
Less: Accumulated depreciation	(67,253)	) (38,107)
Total property and equipment, net	\$104,237	\$75,560

Construction in progress consists primarily of leasehold improvements, building and in-process software development costs. Depreciation expense was \$35.3 million, \$22.6 million and \$13.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(8) Accrued Expenses and Other Current Liabilities

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

	December 31,	
	2014	2013
Taxes payable	\$7,625	\$4,187
Bonuses and commissions	28,228	22,322
Accrued compensation	14,961	16,610
Other employee expenses	16,080	11,926
Other	12,603	13,085
Total accrued expenses and other current liabilities	\$79,497	\$68,130

(9) Convertible Senior Notes

In November 2013, we issued 0% convertible senior notes due November 1, 2018 with aggregate principal amount of \$575 million (the "Notes"). The Notes will not bear interest. The Notes mature on November 1, 2018 unless converted or repurchased in accordance with their terms prior to such date. We cannot redeem the Notes prior to maturity.

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

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

The Notes are convertible up to 7.8 million shares of our common stock at an initial conversion rate of approximately 13.54 shares of common stock per \$1,000 principal amount, which is equal to an initial conversion price of approximately \$73.88 per share of common stock, subject to adjustment. Holders of the Notes may convert their Notes at their option at any time prior to the close of business on the business day immediately preceding July 1, 2018, only under the following circumstances:

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

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

upon the occurrence of specified corporate events.

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

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

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

In accounting for the transaction costs related to the issuance of the Notes, we allocated the total amount incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component of the Notes in stockholders’ equity. Additionally, we recorded a net deferred tax liability of \$6.6 million in connection with the Notes and convertible notes hedge transactions described below. The Notes consisted of the following (in thousands):

	December 31,	
	2014	2013
Liability:		
Principal	\$575,000	\$575,000
Less: debt discount, net of amortization	(131,236	) (160,223
Net carrying amount	\$443,764	\$414,777
Equity ⁽¹⁾ :	\$152,061	\$152,061

(1)Included in the consolidated balance sheets within additional paid-in capital.

We consider the fair value of the Notes at December 31, 2014 and 2013 to be a Level 2 measurement. The estimated fair values of the Notes at December 31, 2014 was \$653.3 million. The fair value was determined based on the closing trading price per \$100 of the Notes on December 31, 2014. Based on the closing price of our common stock of \$67.85 and \$56.01 on December 31, 2014 and 2013, the if-converted value of the Notes was less than its principal amount.

As of December 31, 2014, the remaining life of the Notes is 46 months. The following table sets forth total interest expense recognized related to the Notes (in thousands):

	December 31,	
	2014	2013
Amortization of debt issuance cost	\$1,558	\$188
Amortization of debt discount	27,501	3,310
Total	\$29,059	\$3,498
Effective interest rate of the liability component	6.5%	

There was no interest expense recognized in the year ended December 31, 2012 related to the Notes.

Note Hedge

To minimize the impact of potential economic dilution upon conversion of the Notes, we entered into convertible note hedge transactions with respect to our common stock concurrent with the issuance of the Notes. The Note Hedge covers approximately 7.8 million shares of our common stock at a strike price per share that corresponds to the initial conversion price of the Notes, are also subject to adjustment, and are exercisable upon conversion of the Notes. We paid an aggregate amount of \$135.8 million for the Note Hedge. The Note Hedge will expire upon maturity of the Notes. The Note Hedge is intended to reduce the potential economic dilution upon conversion of the Notes in the event that the fair value per share of our common stock at the time of exercise is greater than the conversion price of

the Notes. The Note Hedge is a separate transaction and is not part of the terms of the Notes. The Note Hedge does not impact earnings per share, as it was entered into to offset any dilution from the Notes.

Warrants

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

(10) Accumulated Other Comprehensive Loss

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

	December 31,		
	2014	2013	
Foreign currency translation adjustment	\$(11,261	) \$(234)
Net unrealized loss on investments	(852	) (242)
Accumulated other comprehensive loss	\$(12,113	) \$(476)

(11) Stockholders' Equity

Common Stock

In February 2012, we issued and sold 1,750,980 shares of common stock at a price of \$10.20 per share for gross proceeds of \$17.9 million in a private placement with a new stockholder. As part of this private placement, our founder sold 700,000 shares of common stock at the same price per share to this new stockholder.

In July 2012, we closed our IPO of 13,397,500 shares of common stock at an offering price of \$18.00 per share. The offering included 10,350,000 shares sold and issued by us and 3,047,500 shares sold by our founder. The 13,397,500 shares sold in the offering included the overallotment option exercised in full by the underwriters to purchase 1,350,000 shares and 397,500 shares from us and our founder, respectively. The net proceeds to us from the offering were \$173.3 million after deducting underwriting discounts and commissions, and before deducting total expenses in connection with the offering of \$3.5 million.

In November 2012, we and the selling shareholders sold 16,100,000 shares of common stock at an offering price of \$28.00 per share. The offering included 1,897,500 shares sold and issued by us and 14,202,500 shares sold by the selling stockholders. The 16,100,000 shares sold included the overallotment option exercised in full by the underwriters to purchase 247,500 shares and 1,852,500 shares from us and the selling stockholders, respectively. The net proceeds to us from the offering were \$51.0 million after deducting underwriting discounts and commissions, and before deducting total expenses in connection with the offering of \$1.2 million.

During the year ended December 31, 2012, we repurchased and subsequently canceled 100,000 shares, 77,498 shares and 6,666 shares of common stock at a price of \$10.00, \$11.50 and \$12.00 per share, respectively.

During the years ended December 31, 2014 and 2013, we issued a total of 9,154,487 shares and 13,986,905 shares, respectively, from stock option exercises, vesting of RSUs and ESPP.

We were authorized to issue 600,000,000 shares of common stock as of December 31, 2014. Holders of our common stock are not entitled to receive dividends unless declared by our board of directors. As of December 31, 2014, we had 149,509,092 shares of common stock outstanding and had reserved shares of common stock for future issuance as follows:

	December 31, 2014
Stock option plan:	
Options outstanding	15,897,422
RSUs	9,941,074
Stock awards available for future grants:	
2005 Stock Option Plan ⁽¹⁾	—
2012 Equity Incentive Plan ⁽¹⁾	14,444,894
2012 Employee Stock Purchase Plan ⁽¹⁾	6,529,516
Total reserved shares of common stock for future issuance	46,812,906

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

Preferred Stock

Our board of directors has the authority, without further action by stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series. Our board of directors may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on our common stock, diluting the voting power of our common stock, impairing the liquidation rights of our common stock, or delaying or preventing a change in control. At December 31, 2014 and 2013, no shares of preferred stock were outstanding.

(12) Stock Awards

We have a 2005 Stock Option Plan, or 2005 Plan, which provides for grants of stock awards, including options to purchase shares of common stock, stock purchase rights and RSUs to certain employees, officers, directors and consultants. As of December 31, 2014, there were 53,355,641 total shares of common stock authorized for issuance under the 2005 Plan, which includes shares already issued under such plan and shares reserved for issuance pursuant to outstanding options and RSUs.

On April 27, 2012, the board of directors approved the 2012 Equity Incentive Plan, or 2012 Plan and the 2012 Employee Stock Purchase Plan, or the 2012 ESPP, which became effective on June 27, 2012 and June 28, 2012, respectively.

Our 2012 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, RSUs, performance-based stock awards and other forms of equity compensation, or collectively, stock awards. In addition, the 2012 Plan provides for the grant of performance cash awards. Incentive stock options may be granted only to employees. All other awards may be granted to employees, including officers, as well as directors and consultants. The share reserve may increase to the extent that outstanding stock options under the 2005 Plan expire or terminate unexercised. The share reserve also automatically increases on January 1 of each year until January 1, 2022, by up to 5% of the total number of shares of the common stock outstanding on December 31 of the preceding year as determined by the board of directors. As of December 31, 2014, there were 29,160,914 total shares of common stock authorized for issuance under the 2012 Plan, excluding 7,475,454 shares of common stock automatically added to the 2012 Plan on January 1, 2015 pursuant to the provision described in the preceding sentence.

Our 2012 ESPP authorizes the issuance of shares of common stock pursuant to purchase rights granted to our employees. The number of shares of common stock reserved for issuance automatically increases on January 1 of each year, from January 1, 2013 through January 1, 2022, by up to 1% of the total number of shares of the common stock outstanding on December 31 of the preceding year. The price at which common stock is purchased under the 2012 ESPP is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower. Offering periods are six months long and begin on February 1 and August 1 of each year. As of December 31, 2014, we had 6,529,516 total shares of common stock reserved for issuance under the 2012 ESPP, excluding 1,495,090 shares of common stock automatically added to the 2012 Plan on January 1, 2015.

Stock Options

The stock options are exercisable at a price equal to the market value of the underlying shares of common stock on the date of the grant as determined by our board of directors or, for those stock options issued subsequent to our IPO, the closing price of our common stock as reported on the New York Stock Exchange on the date of grant. Stock options granted under our 2005 Plan and the 2012 Plan to new employees generally vest 25% one year from the date the requisite service period begins and continue to vest monthly for each month of continued employment over the remaining three years. Options granted generally are exercisable for a period of up to 10 years. Option holders under the 2005 Plan can exercise unvested options to acquire restricted stock. Upon termination of service, we have the right to repurchase at the original purchase price any unvested (but issued) shares of common stock.

A summary of the stock option activity was as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2012	36,115,460	\$5.05		
Granted	2,339,523	38.07		
Exercised	(12,951,123)	3.34		\$446,054
Canceled/forfeited	(2,104,486)	7.66		
Outstanding at December 31, 2013	23,399,374	9.07		
Granted	744,144	61.40		
Exercised	(7,478,595)	6.76		\$406,630
Canceled/forfeited	(767,501)	22.26		
Outstanding at December 31, 2014	15,897,422	\$11.96	6.88	\$888,579
Vested and expected to vest as of December 31, 2014	15,714,142	\$11.69	6.87	\$882,474
Vested and exercisable as of December 31, 2014	9,474,046	\$6.71	6.48	\$579,267

Aggregate intrinsic value represents the difference between the estimated fair value of our common stock and the exercise price of outstanding, in-the-money options. The total intrinsic value of the options exercised was \$84.2 million the year ended December 31, 2012. The weighted-average grant date per share fair value of options granted was \$29.66, \$18.70 and \$7.68 for the years ended December 31, 2014, 2013 and 2012, respectively. The total fair value of shares vested was \$39.1 million, \$33.1 million and \$19.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested stock options was approximately \$54.1 million. The weighted-average remaining vesting period of unvested stock options at December 31, 2014 was 2.34 years.

RSUs

Activity with respect to outstanding RSUs was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value (Per Share)	Aggregate Fair Value (in thousands)
Outstanding at December 31, 2012	1,457,870	\$16.89	
Granted	4,558,929	38.15	
Vested	(322,623	) 15.15	\$13,510
Forfeited	(266,667	) 30.65	
Outstanding at December 31, 2013	5,427,509	34.02	
Granted	6,514,348	61.13	
Vested	(1,264,521	) 32.14	\$73,663
Forfeited	(736,262	) 45.22	
Outstanding at December 31, 2014	9,941,074	\$51.19	\$674,502
Expected to vest as of December 31, 2014	9,358,944		\$635,004

RSUs granted under the 2005 Plan and the 2012 Plan to employees generally vest over a four-year period. Included in the number of shares granted during the year ended December 31, 2014 were 585,000 RSU with both service and performance-based vesting criteria that were granted to certain executives. These performance RSUs were considered as eligible to vest when approved by the Compensation Committee in January 2015. Shares earned will vest in four quarterly increments starting from February 2016, contingent on the continuous employment of each executive. We recognized \$19.2 million of stock-based compensation expense associated with these performance RSUs during the year ended December 31, 2014.

As of December 31, 2014, total unrecognized compensation cost, adjusted for estimated forfeitures, related to unvested RSUs was approximately \$383.4 million and the weighted-average remaining vesting period was 3.15 years.

(13) Stock-Based Compensation

We use the Black-Scholes options pricing model to estimate the fair value of our stock option grants. This model incorporates various assumptions including expected volatility, expected term, risk-free interest rates and expected dividend yields. The following assumptions were used for each respective period to calculate our stock-based compensation for each stock option grant on the date of the grant:

	Year Ended December 31,		
	2014	2013	2012
Stock Options:			
Expected volatility	47% - 50%	50% - 52%	53% - 57%
Expected term (in years)	6.08	6.02	6.05
Risk-free interest rate	1.78% - 2.06%	0.91% - 2.05%	0.83% - 1.18%
Dividend yield	—	% —	% —

The following assumptions were used to calculate our stock-based compensation for each stock purchase right granted under the 2012 ESPP:

	Year Ended December 31,		2012	
	2014	2013		
ESPP:				
Expected volatility	33% - 49%	35% - 42%	42	%
Expected term (in years)	0.50	0.50	0.58	
Risk-free interest rate	0.05% - 0.08%	0.08% - 0.16%	0.16	%
Dividend yield	—	% —	% —	%

Expected volatility. We use the historic volatility of publicly traded peer companies as an estimate for expected volatility. In considering peer companies, characteristics such as industry, stage of development, size and financial leverage are considered. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available.

Expected term. We estimate the expected term for stock options using the simplified method due to the lack of historical exercise activity for our company. The simplified method calculates the expected term as the mid-point between the vesting date and the contractual expiration date of the award. We estimate the expected term for ESPP using the purchase period.

Risk-free interest rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the stock-based award.

Expected dividend yield. Our expected dividend yield is zero, as we have not and do not currently intend to declare dividends in the foreseeable future.

Fair value of common stock. Prior to our IPO in June 2012, the fair value of our common stock was determined by our board of directors, which intended all options granted to be exercisable at a price per share not less than the per share fair value of the common stock underlying those options on the date of grant. The valuations of our common stock were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The assumptions used in the valuation model are based on future expectations combined with management judgment.

From March 2010 until our IPO in June 2012, we utilized the probability weighted expected return method, or PWERM, approach to allocate value to our common shares. The PWERM approach employs various market approach and income approach calculations depending upon the likelihood of various liquidation scenarios. For each of the various scenarios, an equity value is estimated and the rights and preferences for each stockholder class are considered to allocate the equity value to common shares. The common share value is then multiplied by a discount factor reflecting the calculated discount rate and the timing of the event. Lastly, the common share value is multiplied by an estimated probability for each scenario. The probability and timing of each scenario was based upon discussions between our board of directors and our management team. Under the PWERM, the value of our common stock was based upon four possible future events for our company: an IPO; a strategic merger or sale; remaining a private company; and dissolution.

For stock options granted subsequent to our IPO, the fair value is based on the closing price of our common stock as reported on the New York Stock Exchange on the date of grant.

(14) Interest and other income/(expense), net

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

	Year Ended December 31,		
	2014	2013	2012
Interest expense related to the Notes	\$ (29,059	) \$ (3,498) \$—
Interest income	2,964	1,053	351
Foreign currency exchange gain/(loss)	2,490	(2,493	) 1,067
Other	(100	) 8	186
Interest and other income/(expense), net	\$ (23,705	) \$ (4,930	) \$ 1,604

(15) Net Loss Per Share Attributable to Common Stockholders

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

	Year Ended December 31,			
	2014	2013	2012	
Numerator:				
Net loss	\$ (179,387	) \$ (73,708	) \$ (37,348)
Accretion of redeemable convertible preferred stock	—	—	(308)
Net loss attributable to common stockholders - basic and diluted	\$ (179,387	) \$ (73,708	) \$ (37,656)
Denominator:				
Weighted-average shares outstanding - basic and diluted	145,355,543	135,415,809	73,908,631	
Net loss per share attributable to common stockholders - basic and diluted	\$ (1.23	) \$ (0.54	) \$ (0.51)

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

	Year Ended December 31,		
	2014	2013	2012
Common stock options	15,897,422	23,399,374	36,115,460
Restricted stock units	9,941,074	5,427,509	1,457,870
Common stock subject to repurchase	13,597	91,504	235,066
ESPP obligations	272,294	226,093	435,945
Convertible senior notes	7,783,023	7,783,023	—
Warrants related to the issuance of convertible senior notes	7,783,023	7,783,023	—
Total potentially dilutive securities	41,690,433	44,710,526	38,244,341

(16) Income Taxes

The provision for income taxes consists of the following (in thousands):

	Year Ended December 31,			
	2014	2013	2012	
Current provision:				
Federal	\$2	\$2	\$187	
State	216	287	200	
Foreign	5,046	2,454	1,787	
	5,264	2,743	2,174	
Deferred provision:				
Federal	(232) —	(55)
State	(24) —	(5)
Foreign	(1,161) (232) (746)
	(1,417) (232) (806)
Provision for income taxes	\$3,847	\$2,511	\$1,368	

The components of loss before provision for income taxes by U.S. and foreign jurisdictions were as follows (in thousands):

	Year Ended December 31,			
	2014	2013	2012	
United States	\$(109,087	) \$(35,901	) \$(7,903)
Foreign	(66,453	) (35,296	) (28,077)
Total	\$(175,540	) \$(71,197	) \$(35,980)

The effective income tax rate differs from the federal statutory income tax rate applied to the loss before provision for income taxes due to the following (in thousands):

	Year Ended December 31,			
	2014	2013	2012	
Tax computed at U.S. federal statutory rate	\$(59,684) \$(24,207) \$(12,234)
State taxes, net of federal benefit	95	148	329	
Tax rate differential for international subsidiaries	26,169	14,310	10,967	
Stock-based compensation	9,049	3,447	3,926	
Tax credits	(9,481) (12,529) (1,056)
Tax contingencies	121	76	452	
Non-deductible expenses	1,243	550	532	
Purchased intangibles	1,036	504	—	
Other	(169) (91) (989)
Valuation allowance	35,468	20,303	(559)
Provision for income taxes	\$3,847	\$2,511	\$1,368	

Significant components of our deferred tax assets are shown below (in thousands). A valuation allowance has been recognized to offset our deferred tax assets, as necessary, by the amount of any tax benefits that, based on evidence, are not expected to be realized.

	December 31, 2014	2013	
Deferred tax assets:			
Net operating loss carryforwards	\$11,537	\$4,306	
Deferred revenue	2,989	3,739	
Accrued expenses	4,073	2,549	
Deferred rent	1,883	1,119	
Credit carryforwards	20,908	14,871	
Stock-based compensation	37,956	15,464	
Note Hedge	39,433	48,241	
Other	3,197	2,146	
Total deferred tax assets	121,976	92,435	
Less valuation allowance	(62,439	) (25,795)
	59,537	66,640	
Deferred tax liabilities:			
Depreciation	(11,144	) (9,608)
Convertible notes	(44,995	) (54,817)
Purchased intangibles	—	(1,239)
Other	(726) —	
Net deferred tax assets	\$2,672	\$976	

As of December 31, 2014, we had U.S. federal net operating loss and federal tax credit carryforwards of approximately \$704.5 million and \$17.1 million, respectively. The federal net operating loss carryforwards and federal tax credits will begin to expire in 2024 if not utilized. In addition, we had state net operating loss and state tax credit carryforwards of approximately \$244.7 million and \$12.8 million, respectively. The state net operating loss and tax credit carryforwards will begin to expire in 2019 if not utilized. Utilization of our net operating loss and credit carryforwards may be subject to annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carry forwards before utilization.

Approximately \$678.2 million of federal net operating losses and \$215.9 million of state net operating losses relate to stock-based compensation deductions in excess of book expense, the tax effect of which would be to credit additional paid-in capital, if realized.

We maintain a full valuation allowance against our U.S. deferred tax assets as of December 31, 2014. We regularly assess the need for a valuation allowance against our deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more likely than not that some or all of the deferred tax assets will not be realized. Due to cumulative losses over recent years and based on all available evidence, we have determined that it is more likely than not that net deferred tax assets in the U.S. will not be realized. We have determined that \$2.7 million related to deferred tax assets in certain foreign jurisdictions should be realized since certain foreign entities have cumulative income, and expected future income. The valuation allowance increased \$36.6 million for the year ended December 31, 2014, increased \$12.5 million for the year ended December 31, 2013 and decreased \$0.6 million for the year ended December 31, 2012. The change in valuation allowance between the years ended December 31, 2014 and 2013 is primarily attributable to a decrease of deferred tax liabilities related to the Notes and an increase of deferred tax assets related to stock-based compensation, net operating losses, and the extension of the federal research and development tax credit for the year ended December 31, 2014. We will continue to assess the likelihood of realization of the deferred tax assets in each of the applicable jurisdictions in future periods and will adjust the valuation allowance accordingly.

We have not recorded a provision for deferred U.S. tax expense that could result from the remittance of foreign undistributed earnings since we intend to reinvest the earnings of these foreign subsidiaries indefinitely.

Our share of the undistributed earnings of foreign corporations not included in our consolidated federal income tax returns that could be subject to additional U.S. income tax if remitted was approximately two thousand dollars and \$0.5 million as of December 31, 2014 and 2013, respectively. The determination of the amount of unrecognized U.S. federal deferred income tax liability for undistributed earnings is not practicable.

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A reconciliation of the beginning and ending balance of total unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Balance, beginning period	\$4,810	\$1,725	\$710
Tax positions taken in prior period:			
Gross increases	45	333	827
Gross decreases	(313	) (14	) (65
Tax positions taken in current period:			
Gross increases	4,704	2,784	264
Lapse of statute of limitations	(88	) (18	) (11
Balance, end of period	\$9,158	\$4,810	\$1,725

As of December 31, 2014, we had gross unrecognized tax benefits of approximately \$9.2 million, of which \$2.9 million would impact the effective tax rate, if recognized. We recognize accrued interest and penalties related to unrecognized tax benefits as income tax expense. Accrued interest and penalties included in our liability related to unrecognized tax benefits were \$0.4 million at December 31, 2014 and 2013. The amount of unrecognized tax benefits could be reduced upon expiration of the applicable statutes of limitations. The potential reduction in unrecognized tax benefits during the next 12 months is not expected to be material. Interest and penalties accrued on these uncertain tax positions will be released upon the expiration of the statutes of limitations and these amounts are also not material.

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

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

(17) Related Party Transactions

As part of our sale of Series C and Series D preferred stock, we recorded a liability of \$5.3 million for withholding taxes associated with the repurchase of our founder's shares plus potential interest and penalties that may be imposed by the tax authorities. We recorded an offsetting receivable of \$5.3 million in prepaid expenses and other current assets at June 30, 2010, representing the total amount that was subsequently paid to us by our founder in February 2012 for these withholding taxes. In April 2012, we paid \$5.3 million to the tax authorities for these withholding taxes.

(18) Commitments and Contingencies

Leases

We lease facilities for data center capacity and office space under non-cancelable operating lease agreements with various expiration dates. Rent expense associated with data center leases, included in cost of revenues, was \$13.1 million, \$9.5 million and \$13.3 million for the years ended December 31, 2014, 2013 and 2012, respectively. Rent expense associated with office space leases was \$15.0 million, \$8.1 million and \$4.5 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Annual future minimum payments under these operating leases as of December 31, 2014 are presented in the table below (in thousands).

Fiscal Period:	Data Centers	Office Leases	Total
2015	\$9,561	\$15,511	\$25,072
2016	7,093	25,440	32,533
2017	2,093	27,432	29,525
2018	610	26,690	27,300
2019	628	24,647	25,275
Thereafter	24	143,843	143,867
Total minimum lease payments	\$20,009	\$263,563	\$283,572
Less: non-cancelable sublease income	—	(6,689	) (6,689
	\$20,009	\$256,874	\$276,883

In February 2012, we signed a lease for our new San Diego office that was subsequently amended in December 2013. The lease is for approximately 155,443 square feet of office space with total minimum lease commitments of approximately \$27.8 million. The lease commenced in August 2012 and will expire in September 2022.

During the year ended December 31, 2012, we relocated our San Diego office to another facility in San Diego. As part of this move, we incurred \$2.5 million in lease abandonment costs, which primarily consists of a loss on disposal of assets recorded upon vacating our prior facility in August 2012. The lease on our prior San Diego facility does not expire until 2019 and we are currently subleasing the space. The cease-use loss was calculated as the present value of the remaining lease obligation offset by estimated sublease rental receipts during the remaining lease period, adjusted for deferred items and estimated lease incentives. As of December 31, 2014 and 2013, our facility exit obligation balance was \$0.5 million and \$1.4 million, respectively. The lease abandonment costs are included in general and administrative expense in our consolidated statements of comprehensive loss.

In September 2012, we signed a lease for a total of 43,590 square feet of office space located in Amsterdam. The square-footage for the first year is approximately 17,857 and increases incrementally over the term of the lease, with total minimum lease commitments of approximately \$10.5 million. The lease commenced in October 2012 and has a term of 10.5 years.

In November, 2012, we entered into a lease agreement for 148,704 square feet of office space located in San Jose. The lease commenced in April 2013 and has a term of approximately 11 years. Rent is paid on a monthly basis and will increase incrementally over the term of the lease for total minimum lease payments of approximately \$48.8 million.

In December 2014, we entered into a lease agreement for 328,867 square feet of space, located in Santa Clara. The initial term of the lease is expected to commence on August 15, 2015, although the commencement date may be extended in certain circumstances if specified improvements have not been completed by such date. The initial term shall be for 12 years following the commencement date, with two options to renew the lease for additional terms of five years each. Rent is paid on a monthly basis and will increase incrementally over the term of the lease for total minimum lease payments of approximately \$151.1 million.

Legal Proceedings

From time to time, we are party to litigation and other legal proceedings in the ordinary course of business. While the results of any litigation or other legal proceedings are uncertain, management does not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our financial position, results of operations or cash flows, except as discussed below and for those matters for which we have recorded a loss contingency. We

accrue for loss contingencies when it is both probable that we will incur the loss and when we can reasonably estimate the amount of the loss or range of loss.

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

On February 6, 2014, Hewlett-Packard Company filed a lawsuit against us in the U.S. District Court for the Northern District of California that alleges that some of our services infringe the claims of eight of Hewlett-Packard's patents. Hewlett-Packard is seeking unspecified damages and an injunction. The court held case management conferences on June 26, 2014, September 4, 2014 and February 5, 2015. The parties are currently conducting discovery. Hewlett-Packard served infringement contentions on July 3, 2014 and November 18, 2014. We served invalidity contentions on January 9, 2015. A claim construction hearing is scheduled for June 12, 2015. Trial is currently scheduled to begin on May 16, 2016. We have filed petitions for inter partes review of all eight asserted patents with the United States Patent and Trademark Office.

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

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

(19) Information about Geographic Areas

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

	Year Ended December 31,		
	2014	2013	2012
Revenues by geography			
North America ⁽¹⁾	\$465,332	\$295,400	\$173,001
EMEA ⁽²⁾	173,635	105,177	60,579
Asia Pacific and other	43,596	24,073	10,132
Total revenues	\$682,563	\$424,650	\$243,712

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

	December 31,	
	2014	2013
Long-lived assets:		
North America ⁽³⁾	\$66,489	\$52,937
EMEA ⁽²⁾	27,032	18,017
Asia Pacific and other	10,716	4,606
Total long-lived assets	\$104,237	\$75,560

(1) Revenues attributed to the United States were approximately 94% of North America revenues for each of the years ended December 31, 2014, 2013 and 2012.

(2) Europe, the Middle East and Africa, or EMEA

(3) Long-lived assets attributed to the United States were approximately 97% of North America long-Lived asset for each of the years ended December 31, 2014 and 2013.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in Item 8 of this Annual Report on Form 10-K.

(c) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Our next Annual Meeting of Stockholders is scheduled for June 10, 2015.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be included in an amendment to this Annual Report on Form 10-K or incorporated by reference from our definitive proxy statement to be filed pursuant to Regulation 14A.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Annual Report on Form 10-K:

(a) Financial Statements

The information concerning our financial statements, and Report of Independent Registered Public Accounting Firm required by this Item is incorporated by reference herein to the section of this Annual Report on Form 10-K in Item 8, entitled “ Consolidated Financial Statements and Supplementary Data.”

(b) Financial Statement Schedules

All schedules have been omitted because the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or accompanying notes thereto.

(c) Exhibits.

The list of exhibits filed with this report is set forth in the Exhibit Index following the signature pages and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: February 27, 2015

SERVICENOW, INC.

By: /s/ Frank Sloodman
 Frank Sloodman
 President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Frank Sloodman and Michael P. Scarpelli, and each of them, as his true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him and in his name, place or stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Frank Sloodman Frank Sloodman	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2015
/s/ Michael P. Scarpelli Michael P. Scarpelli	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 27, 2015
/s/ Frederic B. Luddy Frederic B. Luddy	Chief Product Officer and Director	February 27, 2015
/s/ Paul V. Barber Paul V. Barber	Director	February 27, 2015
/s/ Susan L. Bostrom Susan L. Bostrom	Director	February 27, 2015
/s/ Ronald E.F. Codd Ronald E. F. Codd	Director	February 27, 2015
/s/ Charles Giancarlo Charles Giancarlo	Director	February 27, 2015

/s/ Douglas M. Leone Douglas M. Leone	Director	February 27, 2015
/s/ Jeffrey A. Miller Jeffrey A. Miller	Director	February 27, 2015
/s/ Anita M. Sands Anita M. Sands	Director	February 27, 2015
/s/ William L. Strauss William L. Strauss	Director	February 27, 2015

EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
3.1	Restated Certificate of Incorporation.	10-Q	001-35580	3.1	8/10/2012	
3.2	Restated Bylaws.	8-K	001-35580	3.1	12/10/2014	
4.1	Form of Common Stock Certificate. Indenture dated November 13, 2013	S-1/A	333-180486	4.1	6/19/2012	
4.2	between ServiceNow, Inc. and Wells Fargo Bank, National Association. Third Amended and Restated Investors	8-K	001-35580	4.1	11/13/2013	
4.3	Rights Agreement dated November 25, 2009 among the Registrant and certain of its stockholders.	S-1	333-180486	4.2	3/30/2012	
10.1*	Form of Indemnification Agreement. 2005 Stock Plan, Forms of Stock Option					x
10.2*	Agreement and Form of Restricted Stock Unit Agreement thereunder. 2012 Equity Incentive Plan, Forms of Stock	S-1	333-180486	10.2	3/30/2012	
10.3*	Option Award Agreement, Restricted Stock Agreement, Stock Appreciation Right	S-1/A	333-180486	10.3	6/19/2012	
10.4*	Award Agreement and Restricted Stock Unit Award Agreement thereunder. Form of Stock Option Award Agreement and Restricted Stock Unit Award					x
10.5*	Agreement under 2012 Equity Incentive Plan adopted as of January 27, 2015. 2012 Employee Stock Purchase Plan and	10-K	001-35580	10.4	3/8/2013	
10.6*	Form of Subscription Agreement thereunder. Form of Subscription Agreement under					x
10.7*	2012 Employee Stock Purchase Plan adopted as of January 27, 2015. Employment Agreement dated May 2, 2011 among the Registrant and Frank Sloodman.	S-1	333-180486	10.5	3/30/2012	
10.8*	First Amendment to Employment Agreement dated April 23, 2014 among Registrant and Frank Sloodman.	10-Q	001-35580	10.1	8/7/2014	
10.9*	Employment Agreement dated May 12, 2011 among the Registrant and Michael P. Scarpelli.	S-1	333-180486	10.6	3/30/2012	
10.10*	First Amendment to Employment Agreement dated August 15, 2014 among Registrant and Michael P. Scarpelli.	10-Q	001-35580	10.2	11/5/2014	
10.11*	Employment Agreement dated May 21, 2011 among the Registrant and David L. Schneider.	S-1	333-180486	10.7	3/30/2012	
10.12*	First Amendment to Employment Agreement dated July 3, 2014 among Registrant and David L. Schneider.	10-Q	001-35580	10.1	11/5/2014	
10.13*		S-1	333-180486	10.8	3/30/2012	

Employment Agreement dated August 1,
2011 among the Registrant and Daniel R.
McGee.

10.14*	First Amendment to Employment Agreement dated August 15, 2014 among Registrant and Daniel R. McGee.	10-Q	001-35580	10.3	11/5/2014
10.15	Lease Agreement dated November 8, 2012 between the Registrant and Jay Ridge LLC.	S-1/A	333-184674	10.12	11/9/2012

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Exhibit Number	Description of Document	Incorporated by Reference			Filing Date	Filed Herewith
		Form	File No.	Exhibit		
10.16	Office Lease dated December 12, 2014 between Registrant and S1 55 LLC	8-K	001-35580	10.1	12/15/2014	
10.17	Form of Base Convertible Note Hedge Transaction Confirmation.	8-K	001-32224	99.1	11/13/2013	
10.18	Form of Base Warrant Transaction Confirmation.	8-K	001-32224	99.2	11/13/2013	
10.19	Form of Additional Convertible Note Hedge Transaction Confirmation.	8-K	001-32224	99.3	11/13/2013	
10.20	Form of Additional Warrant Transaction Confirmation.	8-K	001-32224	99.4	11/13/2013	
21.1	Subsidiaries of the Registrant.					X
23.1	Consent of independent registered public accounting firm.					X
24.1	Power of Attorney. Reference is made to the signature page hereto.					X
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Schema Linkbase Document					X
101.CAL	XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Presentation Linkbase Document					X

*Indicates a management contract, compensatory plan or arrangement.