ServiceNow, Inc.
Form 10-Q
November 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2013
OR
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-35580

SERVICENOW, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of September 30, 2013, there were approximately 138.7 million shares of the Registrant’s Common Stock outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$121,094	$118,989
Short-term investments	99,044	195,702
Accounts receivable, net	84,527	78,163
Current portion of deferred commissions	24,835	14,979
Prepaid expenses and other current assets	12,919	14,256
Total current assets	342,419	422,089
Deferred commissions, less current portion	16,716	11,296
Long-term investments	132,619	—
Property and equipment, net	68,642	42,342
Intangible assets, net	6,189	596
Goodwill	8,526	—
Other assets	3,625	1,791
Total assets	$578,736	$478,114
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$7,930	$9,604
Accrued expenses and other current liabilities	49,664	48,059
Current portion of deferred revenue	210,545	153,964
Total current liabilities	268,139	211,627
Deferred revenue, less current portion	15,256	16,397
Other long-term liabilities	7,745	6,685
Total liabilities	291,140	234,709
Stockholders' equity:		
Common stock	139	126
Additional paid-in capital	443,083	348,803
Accumulated other comprehensive loss	(662)	(36)
Accumulated deficit	(154,964)	(105,488)
Total stockholders' equity	287,596	243,405
Total liabilities and stockholders' equity	$578,736	$478,114

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Subscription	$92,992	$55,279	$244,926	$141,640
Professional services and other	18,267	9,066	54,494	26,910
Total revenues	111,259	64,345	299,420	168,550
Cost of revenues(1):				
Subscription	23,429	17,931	61,960	43,182
Professional services and other	18,146	9,643	47,921	28,519
Total cost of revenues	41,575	27,574	109,881	71,701
Gross profit	69,684	36,771	189,539	96,849
Operating expenses(1):				
Sales and marketing	47,336	28,140	137,853	74,356
Research and development	20,819	10,783	54,809	26,098
General and administrative	16,179	11,195	43,783	24,441
Total operating expenses	84,334	50,118	236,445	124,895
Loss from operations	(14,650)	(13,347)	(46,906)	(28,046)
Interest and other income (expense), net	600	615	(604)	1,148
Loss before provision for income taxes	(14,050)	(12,732)	(47,510)	(26,898)
Provision for income taxes	663	321	1,966	519
Net loss	$(14,713)	$(13,053)	$(49,476)	$(27,417)
Net loss attributable to common stockholders - basic and diluted	$(14,713)	$(13,053)	$(49,476)	$(27,725)
Net loss per share attributable to common stockholders - basic and diluted	$(0.11)	$(0.11)	$(0.37)	$(0.49)
Weighted-average shares used to compute net loss per share attributable to common stockholders - basic and diluted	137,456,531	117,698,005	134,036,466	57,089,411
Other comprehensive income (loss):				
Foreign currency translation adjustments	$758	$57	$(608)	$(479)
Unrealized gain (loss) on investments	412	(17)	(18)	(34)
Provision for income taxes	—	—	—	60
Other comprehensive income (loss), net of tax	1,170	40	(626)	(573)
Comprehensive loss	$(13,543)	$(13,013)	$(50,102)	$(27,990)

(1) Includes stock-based compensation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of revenues:				
Subscription	$2,190	$1,276	$5,980	$2,514
Professional services and other	1,209	495	3,095	964
Sales and marketing	5,945	2,899	14,752	6,852

Research and development	4,176	1,919	11,005	4,121
General and administrative	4,331	1,624	9,893	4,137

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net loss	$(49,476)	$(27,417)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,316	8,841
Amortization of premiums on investments, net	3,441	594
Amortization of deferred commissions	19,825	9,264
Stock-based compensation	44,725	18,588
Tax benefit from exercise of stock options	(1,817)	(533)
Bad debt expense	882	148
Lease abandonment costs	354	2,922
Changes in operating assets and liabilities:		
Accounts receivable	(6,988)	(11,065)
Deferred commissions	(34,894)	(20,525)
Prepaid expenses and other current assets	2,827	4,242
Other assets	(1,750)	(35)
Accounts payable	(408)	(106)
Accrued expenses and other current liabilities	(2,646)	4,189
Deferred revenue	54,332	43,081
Other long-term liabilities	756	(93)
Net cash provided by operating activities	45,479	32,095
Cash flows from investing activities:		
Purchases of property and equipment	(39,059)	(32,156)
Acquisition, net of cash acquired	(13,330)	—
Purchases of investments	(233,444)	(146,922)
Sale of investments	50,403	1,025
Maturities of investments	142,456 (1)	5,800
Restricted cash	(174)	8
Net cash used in investing activities	(93,148)	(172,245)
Cash flows from financing activities:		
Net proceeds from initial public offering	—	169,799
Offering costs in connection with follow-on offering	(698)	—
Proceeds from employee stock plans	47,833	2,349
Proceeds from early exercise of stock options	—	1,024
Tax benefit from exercise of stock options	1,817	533
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	48,952	189,593
Foreign currency effect on cash and cash equivalents	822	(555)
Net increase in cash and cash equivalents	2,105	48,888
Cash and cash equivalents at beginning of period	118,989	68,088
Cash and cash equivalents at end of period	$121,094	$116,976
Supplemental disclosures of non-cash investing activities:		

Property and equipment included in accounts payable and accrued expenses	$5,360	$3,768

(1) Maturities of investments include the effect of the correction of an immaterial error of $3.0 million related to securities that were improperly classified as short-term investments instead of cash and cash equivalents as of December 31, 2012.

See accompanying notes to condensed consolidated financial statements

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

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

(1) Description of the Business

ServiceNow is a leading provider of cloud-based services to automate enterprise IT operations. We focus on transforming enterprise IT by automating and standardizing service relationships and consolidating IT across the global enterprise. Organizations deploy our service to create a single system of record for enterprise IT, lower operational costs and enhance efficiency. Additionally, our customers use our extensible platform to build custom applications both for IT and other functions across the enterprise, thereby facilitating the automation of activities unique to their business requirements.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and condensed footnotes have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for fair statement have been included. The results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013 or for other interim periods or for future years. The condensed consolidated balance sheet as of December 31, 2012 is derived from audited financial statements as of that date, however, does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Form 10-K for the fiscal year ended December 31, 2012, which was filed with the Securities and Exchange Commission on March 8, 2013.

Principles of Consolidation

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Items subject to the use of estimates include revenue recognition, allowance for trade accounts receivable, accrual for service level credits, useful lives of fixed assets, certain accrued liabilities including our facility exit obligation, the determination of the provision for income taxes, the fair value of stock awards, loss contingencies and the fair value of assets acquired and liabilities assumed for business combinations.

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 condensed consolidated statements of comprehensive loss.

Revenue Recognition

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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 and related support and include 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 solution. Professional services and other revenues consist of fees associated with the implementation and configuration of our service. 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 either 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, which is the date we make our service available to our customers. Once our service is available to customers, we record amounts due in accounts receivable and in deferred revenue. We price our professional services primarily on a time-and-materials basis. We recognize professional services and other 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 account 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 analyses. The total arrangement fee for these multiple element arrangements is then allocated to the separate units of account based on the relative selling price. We price our subscription service using a scaled model based on the duration of the subscription term and we frequently extend discounts to our customers based on the number of users.

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

Deferred Revenue

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. We generally invoice our customers in annual installments for our subscription service. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year subscription license agreements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current portion of deferred revenue and the remaining portion is recorded as long-term.

Deferred Commissions

Deferred commissions are the incremental costs that are directly associated with our non-cancelable subscription contracts with customers 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. Amortization of deferred commissions is included in sales and marketing expense in the condensed 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 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 fair value.

Investments

Investments consist of commercial paper, corporate notes and bonds 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 in accumulated other comprehensive income (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 condensed consolidated statements of comprehensive loss.

Accounts Receivable

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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 are charged to operations 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 condensed consolidated balance sheets. Deferred rent that will be recognized during the succeeding 12-month period is recorded as the current portion of deferred rent and the remainder is recorded as long-term deferred rent.

Under certain leases, we also receive incentives for leasehold improvements, which are recognized as deferred rent, if we determine they are owned by us, and amortized on a straight-line basis over the shorter of the lease term or estimated useful life as a reduction to rent expense. The leasehold improvements are included in property and equipment, net.

Goodwill, Intangible Assets and Impairment Assessments

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 its goodwill for impairment at least annually, or more frequently if circumstances indicate that goodwill may not be recoverable.

Intangible assets are amortized over their useful lives. 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.

The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate.

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. 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. Compensation expense is recognized, net of forfeiture activity estimated to be 4% annually. We estimate the fair value of options using the Black-Scholes options pricing model and fair value of restricted stock unit awards using the value of our common stock on the date of grant. Refer to Note 11 for further information.

Net Income (Loss) Per Share Attributable to Common Stockholders

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We compute net income 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 initial public offering 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, RSUs, common stock subject to repurchase and ESPP obligations. The dilutive potential common shares are computed using the treasury stock method. The effects of outstanding common stock options, RSUs, common stock subject to repurchase and ESPP obligations 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 equivalents, investments and accounts receivable. We maintain cash, cash equivalents and investments at financial institutions that management believes to have good credit ratings and represent minimal risk of loss of principal. We invest in securities with a minimum rating of A by Standard & Poor's and A-2 by Moody's.

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 September 30, 2013 and December 31, 2012, there were no customers that represented more than 10% of our accounts receivable balance. During the three and nine months ended September 30, 2013 and 2012, there were no customers that individually exceeded 10% of our revenues.

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. As of September 30, 2013 and December 31, 2012, the allowance for doubtful accounts was $0.5 million and $0.7 million, respectively.

Warranties and Indemnification

Our cloud-based service to automate enterprise IT 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. As of September 30, 2013 and December 31, 2012, the service level credit accrual was $0.8 million and $1.2 million, respectively.

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 condensed consolidated financial statements.

Income Taxes

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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 condensed consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or 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.

Recent Accounting Pronouncements

In July 2013, the FASB issued a new accounting standard update on the financial statement presentation of unrecognized tax benefits. The new guidance provides that a liability related to an unrecognized tax benefit would be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, if such settlement is required or expected in the event the uncertain tax position is disallowed. The new guidance becomes effective for us on January 1, 2014 and it should be applied prospectively to unrecognized tax benefits that exist at the effective date with retrospective application permitted. We are currently assessing the impact of this new guidance.

(3) Investments

The following is a summary of our investments (in thousands):

	September 30, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$55,898	$2	$—	$55,900
Corporate notes and bonds	215,199	43	(168)	215,074
Total available-for-sale securities	$271,097	$45	$(168)	$270,974

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Commercial paper	$72,850	$—	$(15)	$72,835
Corporate notes and bonds	158,038	8	(98)	157,948
U.S. government agency securities	1,001	—	—	1,001
Total available-for-sale securities	$231,889	$8	$(113)	$231,784

As of September 30, 2013, the contractual maturities of our investments did not exceed 24 months. The fair values of available-for-sale investments, by contractual maturity, are as follows:

	September 30, 2013
Due in 1 year or less	$138,355
Due in 1 year through 3 years	132,619
Total	$270,974

As of September 30, 2013 and December 31, 2012, we had certain available-for-sale securities in a gross unrealized loss position, all of which had been in such position for less than twelve 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):

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	September 30, 2013		December 31, 2012	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial paper	$—	$—	$36,753	$(15)
Corporate notes and bonds	164,230	(168)	137,558	(98)
Total	$164,230	$(168)	$174,311	$(113)

(4) Acquisition

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. The 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 Lives (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. The goodwill balance is not deductible for U.S. income tax purposes.

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

(5) Goodwill and Intangible Assets

Goodwill balance as of September 30, 2013 and December 31, 2012 is presented below (in thousands):

	Carrying Amount
Balance as of December 31, 2012	$—
Goodwill acquired	8,218
Foreign currency translation adjustments	308
Balance as of September 30, 2013	$8,526

Intangible assets consisted of the following as of September 30, 2013 and December 31, 2012 (in thousands):

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	September 30, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$5,737	$(358)	$5,379
Contracts	308	(51)	257
Non-compete agreements	32	(5)	27
Acquisition-related intangible assets	6,077		