

SALESFORCE COM INC
Form 10-K
March 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2013

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-32224

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

94-3320693
(IRS Employer
Identification No.)

The Landmark @ One Market, Suite 300
San Francisco, California 94105
(Address of principal executive offices)

Telephone Number (415) 901-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	New York Stock Exchange, Inc.

Securities registered pursuant to section 12(g) of the Act:

Not applicable

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act. Yes No

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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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):

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Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was July 31, 2012, the aggregate market value of its shares (based on a closing price of \$124.36 per share) held by non-affiliates was approximately \$12.1 billion. Shares of the Registrant's Common Stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant's outstanding Common Stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 31, 2013, there were approximately 146.4 million shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2013 Annual Meeting of Stockholders (the Proxy Statement), to be filed within 120 days of the Registrant's fiscal year ended January 31, 2013, are incorporated by reference in Part III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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This Annual Report on Form 10-K, including the section titled Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) in Item 7, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our anticipated growth, the effect of general economic and market conditions, our business strategy and our plan to build our business, including our strategy to be the leading provider of enterprise cloud computing applications and platforms and to lead the industry shift to the customer company , our service performance and security, the expenses associated with new data centers, additional data center capacity, real estate and office facilities space, our operating results, new features and services, our strategy of acquiring or making investments in complementary companies, services and technologies, and intellectual property rights, our ability to successfully integrate acquired businesses and technologies, and the continued growth and ability to maintain deferred revenue and unbilled deferred revenue, our ability to protect our intellectual property rights, our ability to develop our brands, the effect of evolving government regulations, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the potential availability of additional tax assets in the future and related matters, the impact of expensing stock options, the sufficiency of our capital resources, and potential litigation involving us, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as expects, anticipates, aims, projects, intends, plans, believes, estimates, seeks, variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below, under Risk Factors and elsewhere in this report, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I**ITEM 1. BUSINESS****Overview**

We are a provider of enterprise cloud computing solutions. We were founded on the simple concept of delivering customer relationship management, or CRM, applications via the Internet, or cloud. We introduced our first CRM solution in February 2000 and we have expanded our offerings with new editions, solutions and enhanced features, through internal development and acquisitions.

Our mission is to help our customers transform themselves into customer companies by empowering them to connect with their own customers, partners, employees and products in entirely new ways. With our four core services Sales Cloud, Service Cloud, Marketing Cloud and the Salesforce Platform customers have the tools they need to build a next generation social front office with our social and mobile cloud technologies.

Our products are intuitive and easy-to-use, can be deployed rapidly, customized easily and integrated with other platforms and enterprise applications, or apps. We deliver our solutions as a service via all the major Internet browsers and on most major mobile device operating systems.

We sell to businesses of all sizes and in almost every industry worldwide on a subscription basis, primarily through our direct sales efforts and also indirectly through partners. Through our platform and other developer tools, we also encourage third parties to develop additional functionality and new apps that run on our platform, which are sold separately from, or in conjunction with, our service.

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We were incorporated in Delaware in February 1999. Our principal executive offices are located in San Francisco, California and our principal website address is www.salesforce.com. Our office address is The Landmark @ One Market, Suite 300, San Francisco, California 94105.

The Cloud, Social and Mobile Revolution

We believe that the convergence of cloud, social and mobile technologies is fundamentally transforming how companies connect with their customers, employees, partners and products.

Cloud computing has changed the way enterprise business apps are developed and deployed. Organizations no longer need to buy and maintain their own infrastructure of servers, storage and development tools in order to create and run business apps. Instead, companies can gain access to a variety of business apps via an Internet browser or mobile device on an as-needed basis, without the cost and complexity of managing the hardware or software in-house.

The broad shift to social networking and the use of location aware, touch-based mobile devices in our personal lives have introduced new ways to communicate and collaborate. People now expect to have social and mobile experiences in their professional lives – they want to communicate through feeds and status updates from their phone or tablet, rather than being tethered to a desktop by their business applications. With customers, partners and employees connected and empowered, we believe companies must transform the way they sell, service, market and innovate.

Our Cloud Solutions

We provide enterprise cloud computing solutions. We offer social and mobile cloud apps and platform services, as well as professional services to facilitate the adoption of our solutions. We provide solutions in each of our four core markets: sales, customer service, marketing and cloud platforms.

Our primary service offerings are as follows:

Sales Cloud. The Sales Cloud enables companies to grow their sales pipelines, close more deals, improve sales productivity and gain valuable business insights. Our customers use the Sales Cloud to access accurate customer and prospect information, track leads and progress, forecast opportunities and collaborate around closing a sale on any device. The Sales Cloud also encompasses partner relationship management functionality (including channel management and partner portals) and real-time customer and contact information.

Service Cloud. The Service Cloud enables companies to connect with their customers and effectively address their service and support needs. Our customers use the Service Cloud to connect their customer service agents with customers across every channel: phone, email, chat, self-service web portals, social networks and online communities. In addition, built-in collaboration tools enable customer service teams to share information on how to better service customers.

Marketing Cloud. Our customers use the Marketing Cloud to listen to conversations taking place on public social networks like Facebook, Twitter and blogs. They can also publish content to engage with customers across these social networks, as well as to their own websites. The Marketing Cloud provides sophisticated analytics that enable companies to better identify sales leads and customer service issues, discover advocates, rapidly identify brand, product, or support issues and analyze content across social networks. Relevant conversations can be routed into the Sales Cloud and Service Cloud in the form of leads, contacts and customer service cases to give companies a complete view of their customers.

The Salesforce Platform. The Salesforce Platform provides the infrastructure and many of the services that application developers need to build and deliver business apps. The Salesforce Platform is delivered as a service, enabling IT departments and independent software vendors (ISVs) to be more efficient, dedicating their time to building apps, rather than managing hardware and software. With the Salesforce Platform, developers have the freedom to develop apps in many of today's most popular programming languages, including Java and Ruby. The Salesforce Platform makes any app social and mobile, providing

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social networking features, such as profiles, status updates and feeds; as well as the ability to extend apps to mobile devices.

Professional Services

We offer consulting, deployment and training services to our customers to facilitate the adoption of our social and mobile cloud solutions. Most of our consulting and deployment engagements are billed on a time and materials basis. We offer a number of traditional classroom and online educational classes that address topics such as deploying, using, administering and developing on our service. We also offer classes for our partners who deploy our service on behalf of our customers. We bill the traditional classroom and some of the online educational classes on a per person, per class basis. There is a selection of online educational classes available at no charge to customers that subscribe to our service.

Business Benefits of Using Our Solution

The key advantages of our solution include:

Secure, private, scalable and reliable. Our service has been designed to provide our customers with privacy and high levels of performance, reliability and security. We have built, and continue to invest in, a comprehensive security infrastructure, including firewalls, intrusion detection systems, and encryption for transmissions over the Internet, which we monitor and test on a regular basis. We built and maintain a multi-tenant application architecture that has been designed to enable our service to scale securely, reliably and cost-effectively. Our multi-tenant application architecture maintains the integrity and separation of customer data while still permitting all customers to use the same application functionality simultaneously.

Rapid deployment. Our service can be deployed rapidly since our customers do not have to spend time procuring, installing or maintaining the servers, storage, networking equipment, security products, or other infrastructure hardware and software necessary.

Ease of integration. IT professionals are able to integrate our solutions with existing applications quickly and seamlessly. We provide a set of application programming interfaces (APIs) that enable customers and independent software developers to both integrate our solution with existing third-party, custom, and legacy apps and write their own application services that integrate with our solutions. For example, many of our customers use our Force.com API to move customer-related data from custom-developed and packaged applications into our service on a periodic basis to provide greater visibility into their activities.

High levels of user adoption. We have designed our solutions to be intuitive and easy to use. Our solutions contain many tools and features recognizable to users of popular consumer web services, so users are more familiar with our user interface than typical enterprise applications. As a result, our users can often use and gain benefit from our solutions with minimal training.

Rapid development of apps using the Salesforce Platform. Our customers and third-party developers can develop apps rapidly because of the ease of use and the benefits of a multi-tenant platform. We provide the capability for business users to easily customize our applications to suit their specific needs, and also a variety of programming language support so developers can code complex apps spanning multiple business processes and deliver them to multiple mobile devices.

Increased innovation. By providing infrastructure and development environments on demand, we provide developers the opportunity to create new and innovative apps without having to invest in hardware and distribution. A developer with an idea for a new app can log onto our platforms, develop, test and support their system on the Salesforce Platform and make the app accessible for a subscription fee to his or her customers.

Lower total cost of ownership. We enable customers to achieve significant up-front savings relative to the traditional enterprise software model. Customers benefit from the predictability of their future costs since they generally pay for the service on a per subscriber basis for the term of the subscription contract.

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Because we deploy all upgrades on our servers, new features and functionality automatically become part of our service on the upgrade release date and therefore benefit all of our customers immediately.

Our Strategy

Our objective is to deliver solutions that help companies transform the way they sell, service, market and innovate. Not only do we provide enterprise cloud apps, we also provide an enterprise cloud computing platform upon which our customers and partners can build apps.

Key elements of our strategy include:

Strengthening our market-leading core solutions. We designed our solutions to easily accommodate new features and functions. We intend to continue to extend our core solutions with new features and functions. We also offer advanced editions for an additional subscription fee to customers that require enhanced CRM capabilities. Through our own development, acquisitions and partnerships, we have strengthened and extended our Sales Cloud and Service Cloud application offerings. We expect to continue to make such investments in the future.

Innovating in high-growth markets. As part of our growth strategy, we are delivering innovative solutions in new categories, including marketing, collaboration and human capital management. We are expanding our footprint in these areas to offer new social and mobile cloud innovations to our customers.

Improve renewal rates. Our goal is to have all of our customers renew their subscriptions at the end of their contractual terms. We run customer success and other related programs in an effort to secure renewals of existing customers.

Deepening relationships with existing customers. We see a significant opportunity to deepen our relationships with our existing customers. As our customers realize the benefits of our service, we aim to either upgrade the customer to higher priced editions or sell more subscriptions by targeting additional functional areas and business units within the customer organization, and ultimately pursue enterprise-wide deployments.

Pursuing new customers aggressively. We believe that our offerings provide significant value for businesses of any size. As a result, we will continue to aggressively target businesses of all sizes, primarily through our direct sales force. We have steadily increased and plan to continue to increase the number of direct sales professionals we employ, and we intend to develop additional distribution channels for our service.

Building our business in top markets globally. We also believe that there is a substantial market opportunity for our service globally. We plan to continue to aggressively market to customers worldwide by recruiting local sales and support professionals and by building partnerships that help us add customers in the largest enterprise software markets around the world.

Encouraging the development of third-party apps on our cloud computing platforms. The Salesforce Platform enables existing customers, ISVs and third-party developers to create and deliver cloud apps they have built on our multi-tenant platform. It is a platform on which apps can be created, tested, published, and run. In addition, these apps can be marketed and sold on the AppExchange, our online marketplace for business apps, or sold directly by software vendors. We believe our ecosystem of cloud developers and software vendors will address the business requirements of both current and potential customers.

Technology, Development and Operations

We deliver our service as a highly scalable, multi-tenant app. We use commercially available hardware and a combination of proprietary and commercially available software to provide our service. We have optimized our service to run on specific databases and operating systems using the tools and platforms best suited to serve our customers rather than providing software that must be written to different hardware, operating system and

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database platforms, or that depends upon a customer's unique systems environment. As part of our business strategy, we periodically acquire companies or technologies, and we incorporate the acquired technologies into our service while maintaining the quality and security standards that are consistent with our brand and reputation. Performance, functional depth and the usability of our service drive our technology decisions and product direction.

Our service treats all customers as logically separate tenants in central applications, databases and other resources. As a result, we are able to spread the cost of delivering our service across our user base. In addition, because we do not have to manage thousands of distinct applications with their own business logic and database schemas, we believe that we can scale our business faster than traditional software vendors. Moreover, we can focus our resources on building new functionality to deliver to our customer base as a whole rather than on maintaining an infrastructure to support each of their distinct applications.

Because of our multi-tenant and logically separated architecture, we are able to provide all of our customers with a solution based on a single version of our apps.

Our research and development efforts are focused on improving and enhancing the features, functionality and security of our existing service offerings as well as developing new services. In addition, from time to time we supplement our internal research and development activities with outside development resources and acquired technology.

Our customers access our service over the Internet via all of the major Internet browsers and on most major mobile device operating systems.

We provide our services to our customers from third-party data center hosting facilities located in the United States and other countries.

Customers

We sell to businesses of all sizes. The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues in fiscal 2013, 2012, or 2011.

Sources of Revenue

We derive our revenues primarily from subscription fees for our service. We also derive revenues from premier support, which provides customers with additional support beyond the standard support that is included in the basic subscription fee.

We recognize subscription and support revenue ratably over the contract term, beginning on the commencement date of each contract. The majority of our professional services contracts are on a time and materials basis, for which we generally recognize revenue as the services are rendered.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services described above and is recognized as the revenue recognition criteria are met. Unbilled deferred revenue represents future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. We generally invoice customers in annual or quarterly installments. Deferred revenue and unbilled deferred revenue are influenced by several factors, including new business seasonality within the year, the specific timing and duration of large customer subscription agreements, the timing and compounding effects of customer renewals, varying billing cycles of subscription agreements, invoice timing, foreign currency fluctuations and new business linearity within the quarter.

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Sales, Marketing and Customer Support

We organize our sales and marketing programs by geographic regions, including the Americas, Europe, and Asia Pacific, which includes Japan. The majority of our revenue from the Americas is attributable to customers in the United States. Approximately 30 percent of our revenue comes from customers outside of the Americas.

Direct Sales

We sell our services primarily through our direct sales force, which is comprised of telephone sales personnel based in regional hubs, and field sales personnel based in territories close to their customers. Both our telephone sales and field sales personnel are supported by sales representatives, who are primarily responsible for generating qualified sales leads. Our small business, commercial and enterprise account executives focus their efforts on small, mid-size and large enterprises, respectively.

Referral and Indirect Sales

We have a network of partners who refer sales leads to us and who then assist in selling to these prospects.

This network includes global consulting firms, systems integrators and regional partners. In return, we typically pay these partners a fee based on the first-year subscription revenue generated by the customers whom they refer. Also included in this network are ISVs, whom we typically pay a percentage of the subscription revenue generated by their referrals.

We continue to invest in developing additional distribution channels for our subscription service.

Marketing

Our marketing strategy is to promote our brand and generate demand for our offerings. We use a variety of marketing programs across traditional and social channels to target our prospective and current customers, partners, and developers.

Our primary marketing activities include:

Press and industry analyst relations to garner third-party validation and generate positive coverage for our company, offerings and value proposition;

User conferences and events, as well as participation in trade shows and industry events, to create customer and prospect awareness;

Social marketing and engagement on social channels like Facebook, Twitter, LinkedIn and YouTube;

Search engine marketing and advertising to drive traffic to our Web properties;

Web site development to engage and educate prospects and generate interest through product information and demonstrations, free trials, case studies, white papers, and marketing collateral;

Multi-channel marketing campaigns;

Use of customer testimonials; and

Sales tools and field marketing events to enable our sales organization to more effectively convert leads into customers.

Customer Service and Support

Our global customer support group responds to both business and technical inquiries about the use of our products via the web, telephone, email, social networks and other channels. We provide standard customer support during regular business hours at no charge to customers who purchase any of our paying subscription editions. We also offer premier customer support for an additional fee, which includes services such as priority access to technical resources, developer support, and/or system administration.

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Seasonality

Our fourth quarter has historically been our strongest quarter for new business and renewals. For a more detailed discussion, see the Seasonal Nature of Deferred Revenue and Accounts Receivable discussion in Management's Discussion and Analysis.

Competition

The market for our offerings is highly competitive, rapidly evolving and fragmented, and subject to changing technology, frequent introductions of new products and services, and as we have seen recently, consolidation. Many prospective customers have invested substantial personnel and financial resources to implement and integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to an enterprise cloud computing application service. Additionally, third party developers may be reluctant to build application services on our platform since they have invested in other competing technology platforms.

We compete primarily with vendors of packaged business software and companies offering CRM apps. We also compete with internally developed apps and may encounter competition from enterprise software vendors and online service providers who may develop toolsets and products that allow customers to build new apps that run on the customers' current infrastructure or as hosted services. Our current principal competitors include:

enterprise software application vendors;

cloud computing application service providers;

software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;

traditional platform development environment companies; and

cloud computing development platform companies.

We believe that as traditional enterprise software application and platform vendors shift more of their focus to cloud computing, they will become a greater competitive threat.

Intellectual Property

We rely on a combination of trademark, copyright, trade secret and patent laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information.

Employees

As of January 31, 2013, we had 9,800 employees. None of our employees are represented by a labor union.

Available Information

You can obtain copies of our Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our Web site at <http://www.salesforce.com/company/investor/sec-filings/> as soon as reasonably practicable following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting our Investor Relations department at our office address listed above. The public may read and copy any materials filed by the Company with the

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SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC

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at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, cash flows and financial condition.

Risks Related to Our Business and Industry

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

Because our service is complex and incorporates a variety of hardware and proprietary and third-party software, our service may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. Internet-based services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in our service and new errors in our service may be detected in the future. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. As we acquire companies, we may encounter difficulty in incorporating the acquired technologies into our service and maintaining the quality standards that are consistent with our brand and reputation. Since our customers use our service for important aspects of their business, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' businesses. As a result, customers could elect to not renew, or delay or withhold payment to us, we could lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

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

We currently serve our customers from third-party data center hosting facilities located in the United States and other countries. Any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, our production environment and all of our customers' data is currently replicated in near real-time in a facility located in the United States. Companies and products added through acquisition may be temporarily served through alternate facilities. We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

As we continue to add data centers and add capacity in our existing data centers, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service.

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If our security measures are breached and unauthorized access is obtained to a customer's data or our data or our IT systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our customers' data or our data, including our intellectual property and other confidential business information, or our IT systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers' data or our data or IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third-party technology providers to access their customer data. Because we do not control our customers and third-party technology providers, or the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing. Malicious third-parties may also conduct attacks designed to temporarily deny customers access to our services. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

We rely on third-party computer hardware and software which could cause errors or failures of our service and may be difficult to replace.

We rely on computer hardware purchased or leased and software licensed from third parties in order to offer our service, including database software from Oracle Corporation and hardware from a variety of vendors. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could harm our business. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained through purchase or license and integrated into our service.

Because we recognize revenue from subscriptions for our service over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our operating results.

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically 12 to 36 months. As a result, most of the revenue we report in each quarter is the result of subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our revenue results for that quarter. Any such decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our service, and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

Our efforts to expand our service beyond the CRM market and to develop our existing service in order to keep pace with technological developments may not succeed and may reduce our revenue growth rate and/or harm our business.

We derive substantially all of our revenue from subscriptions to our CRM enterprise cloud computing application service, and we expect this will continue for the foreseeable future. The markets for our Marketing Cloud and Salesforce Platform remain relatively new and it is uncertain whether our efforts will ever result in significant revenue for us. Further, the introduction of new services beyond the CRM market may not be

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successful, and early stage interest and adoption of such new services may not result in long term success or significant revenue for us. Our efforts to expand our service beyond the CRM market may not succeed and may reduce our revenue growth rate.

Additionally, if we are unable to develop enhancements to and new features for our existing service or new services that keep pace with rapid technological developments, our business will be harmed. The success of enhancements, new features and services depends on several factors, including the timely completion, introduction and market acceptance of the feature or edition. Failure in this regard may significantly impair our revenue growth. In addition, because our service is designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in bringing them to market timely. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development or service delivery expenses. Any failure of our service to operate effectively with future network platforms and technologies could reduce the demand for our service, result in customer dissatisfaction and harm our business.

If we experience significant fluctuations in our rate of anticipated growth and fail to balance our expenses with our revenue forecasts, our results could be harmed.

Due to the pace of change and innovation in enterprise cloud computing services and the unpredictability of future general economic and financial market conditions, we may not be able to accurately forecast our rate of growth. We plan our expense levels and investment on estimates of future revenue and future anticipated rate of growth. We may not be able to adjust our spending appropriately if the addition of new subscriptions or the renewal rate for existing subscriptions falls short of our expectations. A portion of our expenses may also be a fixed cost in nature for some minimum amount of time, such as with a data center contract or office lease, so it may not be possible to reduce costs in a timely manner or without the payment of fees to exit certain obligations early.

As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis. Our recent revenue growth rates may not be sustainable and may decline in the future. We believe that period-to-period comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically 12 to 36 months, and in fact, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or renew for lower cost editions of our service. We cannot accurately predict renewal rates given our varied customer base of enterprise and small and medium size business customers and the number of multiyear subscription contracts. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers' spending levels, decreases in the number of users at our customers, pricing changes and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or reduce the number of paying subscriptions at the time of renewal, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic

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conditions and that our customers do not react negatively to any price changes related to these additional features and services. If our efforts to upsell to our customers are not successful and negative reaction occurs, our business may suffer.

Our quarterly results can fluctuate and our stock price and the value of your investment could decline substantially.

Our quarterly results are likely to fluctuate. For example, our fiscal fourth quarter has historically been our strongest quarter for new business and renewals. The year-over-year compounding effect of this seasonality in billing patterns and overall new business and renewal activity causes the value of invoices that we generate in the fourth quarter to continually increase in proportion to our billings in the other three quarters of our fiscal year.

Additionally, some of the important factors that may cause our revenues, operating results and cash flows to fluctuate from quarter to quarter include:

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

the renewal rates for our service;

the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

changes in deferred revenue and unbilled deferred revenue balances, which are not reflected in the balance sheet, due to seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity;

the number of new employees;

changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;

the cost, timing and management effort for the introduction of new features to our service;

the costs associated with acquiring new businesses and technologies and the follow-on costs of integration and consolidating the results of acquired businesses;

the rate of expansion and productivity of our sales force;

the length of the sales cycle for our service;

new product and service introductions by our competitors;

our success in selling our service to large enterprises;

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variations in the revenue mix of editions of our service;

technical difficulties or interruptions in our service;

expenses related to our real estate, our office leases and our data center capacity and expansion;

changes in foreign currency exchange rates;

changes in interest rates and our mix of investments, which would impact our return on our investments in cash and marketable securities;

conditions, particularly sudden changes, in the financial markets have and may continue to impact the value of and access to our investment portfolio;

changes in the effective tax rates due to changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, changes in federal, state or international tax laws

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and accounting principles, changes in judgment from the evaluation of new information that results in a recognition, derecognition or change in measurement of a tax position taken in a prior period, results of tax examinations by the Internal Revenue Service, state and foreign taxing authorities, as well as changes in excess tax benefits related to exercises and vesting of stock-based compensation that are allocated directly to stockholders' equity;

expenses related to significant, unusual or discrete events which are recorded in the period in which the events occur;

general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their service, or delay a prospective customer's purchasing decision, or reduce the value of new subscription contracts, or affect renewal rates;

timing of additional investments in our enterprise cloud computing application and platform services and in our consulting service;

regulatory compliance costs;

the timing of customer payments and payment defaults by customers;

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

any adverse resolution to income tax audits in any tax jurisdictions throughout the world;

the impact of new accounting pronouncements;

equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes at the election of the note holders;

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

the timing of commission, bonus, and other compensation payments to employees; and

the timing of payroll and other withholding tax expenses which is triggered by the payment of bonuses and when employees exercise their vested stock awards.

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

Additionally, we may fail to meet or exceed the expectations of securities analysts and investors, and the market price of our common stock could decline. If one or more of the securities analysts who cover us adversely change their recommendation regarding our stock, the market price of our common stock could decline. Moreover, our stock price may be based on expectations, estimates or forecasts of our future performance that may be unrealistic or that may not be met. Further, our stock price may fluctuate based on reporting by the financial media,

including television, radio and press reports and blogs.

We expect to incur net GAAP losses in the future.

We have incurred net losses in each fiscal quarter since July 31, 2011. In addition, we expect our costs to increase as a result of decisions made for our long-term benefit, such as equity awards and business combinations. Additionally, for the foreseeable future, we must maintain a substantial valuation allowance against our deferred income tax asset balance. If our revenue does not grow to offset these expected increased costs, we will not be able to return to profitability and we may continue to incur net losses, on a U.S. GAAP basis, in the future.

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

The market for enterprise applications and platform services is highly competitive, rapidly evolving and fragmented, and subject to changing technology, shifting customer needs and frequent introductions of new products and services. We compete primarily with vendors of packaged CRM software and companies offering on-demand CRM applications. We also compete with internally developed applications and face competition from enterprise software vendors and online service providers who may develop toolsets and products that allow customers to build new applications that run on the customers' current infrastructure or as hosted services. Our current competitors include:

enterprise software application vendors;

cloud computing application service providers;

software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;

traditional platform development environment companies; and

cloud computing development platform companies.

Many of our current and potential competitors enjoy substantial competitive advantages, such as greater name recognition, longer operating histories and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our current and potential competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers.

As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Furthermore, because of these advantages, even if our service is more effective than the products that our competitors offer, potential customers might accept competitive products and services in lieu of purchasing our service. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

As we acquire companies or technologies, we may not realize the expected business benefits, the acquisitions could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results and the value of your investment.

As part of our business strategy, we periodically make investments in, or acquisitions of, complementary businesses, joint ventures, services and technologies and intellectual property rights, and we expect that we will continue to make such investments and acquisitions in the future. Acquisitions and investments involve numerous risks, including:

the potential failure to achieve the expected benefits of the combination or acquisition;

difficulties in and the cost of integrating operations, technologies, services and personnel;

diversion of financial and managerial resources from existing operations;

risk of entering new markets in which we have little or no experience or where competitors may have stronger market positions;

potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;

potential loss of key employees;

inability to generate sufficient revenue to offset acquisition or investment costs;

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the inability to maintain relationships with customers and partners of the acquired business;

the difficulty of transitioning the acquired technology onto our existing platforms and maintaining the security standards consistent with our other services for such technology;

potential unknown liabilities associated with the acquired businesses;

unanticipated expenses related to acquired technology and its integration into existing technology;

negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue;

delays in customer purchases due to uncertainty related to any acquisition;

the need to implement controls, procedures and policies at the acquired company;

challenges caused by distance, language and cultural differences;

in the case of foreign acquisitions, the challenges associated with integrating operations across different cultures and languages and any currency and regulatory risks associated with specific countries; and

the tax effects of any such acquisitions.

In addition, if we finance acquisitions by issuing equity or convertible or other debt securities, our existing stockholders may be diluted or we could face constraints related to the terms of and repayment obligation related to the incurrence of indebtedness which could affect the market price of our common stock. Further, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be seriously harmed and the value of your investment may decline.

If the market for our technology delivery model and enterprise cloud computing services develops more slowly than we expect, our business could be harmed.

Our success also depends on the willingness of third-party developers to build applications that are complementary to our service. Without the development of these applications, both current and potential customers may not find our service sufficiently attractive. In addition, for those customers who authorize a third-party technology partner access to their data, we do not provide any warranty related to the functionality, security and integrity of the data transmission or processing. Despite contract provisions to protect us, customers may look to us to support and provide warranties for the third-party applications, which may expose us to potential claims, liabilities and obligations for applications we did not develop or sell.

Supporting our existing and growing customer base could strain our personnel resources and infrastructure, and if we are unable to scale our operations and increase productivity, we may not be able to successfully implement our business plan.

We continue to experience significant growth in our customer base, which has placed a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure, research and development, and real estate spending will be required to scale our operations and increase productivity, to address the needs of our customers, to further develop and enhance our service, to expand into new geographic areas, and to scale with the overall growth of our Company.

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We regularly upgrade and/or replace our various software systems. If the implementations of these new applications are delayed, or if we encounter unforeseen problems with our new systems or in migrating away from our existing applications and systems, our operations and our ability to manage our business could be negatively impacted.

Our success will depend in part upon the ability of our senior management to manage our projected growth effectively. To do so, we must continue to increase the productivity of our existing employees and to hire, train

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and manage new employees as needed. To manage the expected domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls, our reporting systems and procedures, and our utilization of real estate. The additional investments we are making will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully scale our operations and increase productivity, we will be unable to execute our business plan.

As more of our sales efforts are targeted at larger enterprise customers, our sales cycle may become more time-consuming and expensive, we may encounter pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for some complex transactions, all of which could harm our business and operating results.

As we target more of our sales efforts at larger enterprise customers, we will face greater costs, longer sales cycles and less predictability in completing some of our sales. In this market segment, the customer's decision to use our service may be an enterprise-wide decision and, if so, these types of sales would require us to provide greater levels of education regarding the use and benefits of our service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. In addition, larger customers may demand more customization, integration services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting our own sales and professional services resources to a smaller number of larger transactions, while potentially requiring us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met.

Professional services may also be performed by a third party or a combination of our own staff and a third party. Our strategy is to work with third parties to increase the breadth of capability and depth of capacity for delivery of these services to our customers. If a customer is not satisfied with the quality of work performed by us or a third party or with the type of services or solutions delivered, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the customer's dissatisfaction with our services could damage our ability to obtain additional work from that customer. In addition, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

Periodic changes to our sales organization can be disruptive and may reduce our rate of growth.

We periodically change and make adjustments to our sales organization in response to market opportunities, competitive threats, management changes, product introductions or enhancements, acquisitions, sales performance, increases in sales headcount, cost levels and other internal and external considerations. In the past, these changes sometimes resulted in a temporary lack of focus and reduced productivity; these effects could recur in connection with any future sales changes we might undertake and our rate of revenue growth could be negatively affected. In addition, any significant change to the way we structure our compensation of our sales organization may be disruptive and may affect our revenue growth.

Sales to customers outside the United States expose us to risks inherent in international sales.

We sell our service throughout the world and are subject to risks and challenges associated with international business. Historically, sales in Europe and Asia Pacific together have represented over 30 percent of our total revenues, and we intend to continue to expand our international sales efforts. The risks and challenges associated with sales to customers outside the United States include:

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

laws and business practices favoring local competitors;

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

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pressure on the creditworthiness of sovereign nations, particularly in Europe, where we have customers and a balance of our cash, cash equivalents, and marketable securities. Liquidity issues or political actions by sovereign nations could result in decreased values of these balances;

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

treatment of revenue 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;

foreign currency fluctuations and controls;

different pricing environments;

difficulties in staffing and managing foreign operations;

different or lesser protection of our intellectual property;

longer accounts receivable payment cycles and other collection difficulties;

natural disasters, acts of war, terrorism, pandemics or security breaches; and

regional economic and political conditions.

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

Additionally, our international subscription fees are paid either in U.S. dollars or local currency. As a result, fluctuations in the value of the U.S. dollar and foreign currencies may make our service more expensive for international customers, which could harm our business.

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

We are involved in various legal matters arising from the normal course of business activities. These may include claims, suits, government investigations and other proceedings involving alleged infringement of third-party patents and other intellectual property rights, and commercial, corporate and securities, labor and employment, wage and hour, and other matters.

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties, including practicing entities and non-practicing entities, claiming that we have infringed their intellectual property rights. For example, we have received a notice from a large non-practicing entity alleging that we infringe upon certain of its patents. We continue to analyze the potential merits of such claim, if any, the potential defenses and counterclaims to such claim and we have been engaged in discussions with this entity with respect to these matters. No litigation has been filed to date.

In addition, we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies may be subject to injunction if they are found to infringe the rights of a third party or we may be required to pay damages, or both. Many of our subscription agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

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The outcome of any claims or litigation, regardless of the merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, whether through settlement or licensing discussions, or litigation, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, result in efforts to enjoin our activities, lead to attempts on the part of other parties to pursue similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices and/or pay monetary damages or enter into short- or long-term royalty or licensing agreements.

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Any adverse determination related to intellectual property claims or other litigation could prevent us from offering our service to others, could be material to our financial condition or cash flows, or both, or could otherwise adversely affect our operating results. In addition, depending on the nature and timing of any such dispute, an unfavorable resolution of a legal matter could materially affect our future results of operation or cash flows or both.

In addition, our exposure to risks associated with various claims, including the use of intellectual property, may be increased as a result of acquisitions of other companies. For example, we may have a lower level of visibility into the development process with respect to intellectual property or the care taken to safeguard against infringement risks with respect to the acquired company or technology. In addition, third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

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

If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, and our business may be harmed. In addition, defending our intellectual property rights may entail significant expense. Any of our patents, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and many U.S. and international patent applications pending, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, our existing patents 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. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We may be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

Privacy concerns and laws, evolving regulation of the Internet, cross-border data transfers and other domestic or foreign regulations may limit the use and adoption of our solution and adversely affect our business.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign governments and agencies becomes more likely. For example, we believe increased regulation is occurring in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing demand for our solutions and restricting our ability to store, process and share data with our customers.

Our customers can use our service to store contact and other personal or identifying information regarding their customers and contacts. Federal, state and foreign governments and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals in addition to laws and regulations that impact the cross-border transfer of personal information. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Furthermore, privacy concerns may cause our customers' customers to resist providing the personal data

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necessary to allow our customers to use our service effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the gathering of personal information were to be curtailed in this manner, CRM solutions would be less effective, which may reduce demand for our service and harm our business.

Our continued success depends on our ability to maintain and enhance our brands.

We believe that the brand identities we have developed have significantly contributed to the success of our business. Maintaining and enhancing the salesforce.com brand and our other brands are critical to expanding our base of customers, partners and employees. Our brands will depend largely on our ability to remain a technology leader and continue to provide high-quality innovative products, services, and features. In order to maintain and enhance our brands, we may be required to make substantial investments that may later prove to be unsuccessful. If we fail to maintain and enhance our brands, or if we incur excessive expenses in our efforts to do so, our business, operating results and financial condition may be materially and adversely affected.

We may lose key members of our management team or development and operations personnel, and may be unable to attract and retain employees we need to support our operations and growth.

Our success depends substantially upon the continued services of our executive officers and other key members of management, particularly our Chief Executive Officer. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Such changes in our executive management team may be disruptive to our business. We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our service and technologies. We do not have employment agreements with any of our executive officers, key management, development or operations personnel and they could terminate their employment with us at any time. The loss of one or more of our key employees or groups could seriously harm our business.

In the technology industry, there is substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related services, 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. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

Any failure in our delivery of high-quality technical support services may adversely affect our relationships with our customers and our financial results.

Our customers depend on our support organization to resolve technical issues relating to our applications. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our enterprise cloud computing solutions to existing and prospective customers, and our business, operating results and financial position.

We may not realize any benefits in connection with our purchase of undeveloped land in San Francisco. If we do not realize any benefits, our financial performance may be negatively impacted.

In November 2010, we purchased approximately 14 acres of undeveloped real estate in San Francisco, California, including entitlements and improvements associated with the land. We may not realize any benefits

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with respect to the purchase of such real estate. During the first quarter of fiscal 2013, we suspended pre-construction activity on the land. If we commence efforts to develop the real estate, we will be required to devote substantial additional resources in the future, which may impact our liquidity and financial flexibility. In the event that we decide to sell this property, the sale price may be less than the recorded value of the land on our consolidated balance sheet, and our financial results may be negatively impacted.

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

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced in the past a downturn in which economic activity was 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. The European Union continues to face great economic uncertainty which could impact the overall world economy or various other regional economies. These conditions affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect renewal rates, all of which could adversely affect our operating results.

Natural disasters and other events beyond our control could materially adversely affect us.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services. The majority of our research and development activities, corporate headquarters, information technology systems, and other critical business operations, are located near major seismic faults in the San Francisco Bay Area. Because we do not carry earthquake insurance for direct quake-related losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

Risks Relating to Capitalization Matters

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

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the market price of our common stock has been and is likely to continue to be subject to wide fluctuations. Factors affecting the market price of our common stock include:

variations in our operating results, earnings per share, cash flows from operating activities, deferred revenue and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;

forward looking guidance to industry and financial analysts related to future revenue and earnings per share;

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 services or service enhancements, strategic alliances or significant agreements by us or by our competitors;

announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;

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announcements of customer additions and customer cancellations or delays in customer purchases;

recruitment or departure of key personnel;

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disruptions in our service due to computer hardware, software, network or data center problems;

the economy as a whole, market conditions in our industry and the industries of our customers;

trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;

corporate actions, including our proposal to increase our authorized share capital to be voted upon by our stockholders in March 2013 and our related contingent stock split proposal;

the issuance of shares of common stock by us, whether in connection with an acquisition, a capital raising transaction or upon conversion of some or all of our outstanding convertible senior 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. 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 management's attention and resources.

Provisions in our amended and restated certificate of incorporation and bylaws, Delaware law and our outstanding convertible 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 amended and restated certificate of incorporation and 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 percent of our stockholders;

require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;

authorize the issuance of blank check preferred stock that our board could use to implement a stockholder rights plan (also known as a poison pill);

eliminate the ability of our stockholders to call special meetings of stockholders;

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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 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 percent or more of our common stock.

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In addition, the fundamental change purchase rights applicable to our convertible notes, which will allow note holders to require us to purchase all or a portion of their notes upon the occurrence of a fundamental change, and the provisions requiring an increase to the conversion rate for conversions in connection with a make-whole fundamental change may in certain circumstances delay or prevent a takeover of us and the removal of incumbent management that might otherwise be beneficial to investors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2013, our executive offices and principal office for domestic marketing, sales, professional services and development occupy over 950,000 square feet in the San Francisco Bay Area. We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space for their operations including local sales and professional services personnel.

We also own approximately 14 acres of undeveloped real estate in San Francisco, California, including entitlements and improvements associated with the land.

We believe that our existing facilities and offices are adequate to meet our current requirements. See Note 10, Commitments, in the Notes to the Consolidated Financial Statements for more information about our lease commitments. If we require additional space, we believe that we will be able to obtain such space on acceptable, commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are involved in various legal proceedings and claims related to alleged infringement of third-party patents and other intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour, and other claims. We have been, and may in the future be, put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement. For example, we have received a notice from a large non-practicing entity alleging that we infringe upon certain of its patents. We continue to analyze the potential merits of such claim, if any, the potential defenses and counterclaims to such claim and we have been engaged in discussions with this entity with respect to these matters. No litigation has been filed to date.

We evaluate all claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, settlement or litigation potential and the expected effect on us. Our technologies may be subject to injunction if they are found to infringe the rights of a third party. In addition, many of our subscription agreements require us to indemnify our customers for third-party intellectual property infringement claims, which could increase the cost to us of an adverse ruling on such a claim.

The outcome of any claims or litigation, regardless of the merits, is inherently uncertain. Any claims and other lawsuits, and the disposition of such claims and lawsuits, whether through settlement or litigation, could be time-consuming and expensive to resolve, divert our attention from executing our business plan, result in efforts to enjoin our activities, lead to attempts by third parties to seek similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices and/or pay monetary damages or enter into short- or long-term royalty or licensing agreements.

In general, the resolution of a legal matter could prevent us from offering our service to others, could be material to our financial condition or cash flows, or both, or could otherwise adversely affect our operating results.

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We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. In our opinion, resolution of all current matters is not expected to have a material adverse impact on our consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect our future results of operations or cash flows, or both, of a particular quarter.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding our current executive officers (in alphabetical order):

Name	Age	Position
Marc Benioff	48	Chairman of the Board of Directors and Chief Executive Officer
Blair Crump	51	President, Global Enterprise
Parker Harris	46	Co-Founder
George Hu	38	Chief Operating Officer
Hilarie Koplow-McAdams	49	President, Commercial and SMB Unit
Burke Norton	46	Executive Vice President and Chief Legal Officer
Graham Smith	53	Executive Vice President and Chief Financial Officer
Frank van Veenendaal	53	Vice Chairman

Marc Benioff co-founded salesforce.com in February 1999 and has served as Chairman of the Board of Directors since inception. He has served as Chief Executive Officer since November 2001. From 1986 to 1999, Mr. Benioff was employed at Oracle Corporation, where he held a number of positions in sales, marketing and product development, lastly as a Senior Vice President. Mr. Benioff also serves as Chairman of the Board of Directors of the salesforce.com/foundation and serves as a member of the Board of Directors at Cisco Systems, Inc. Mr. Benioff received a Bachelor of Science in Business Administration (B. S. B. A.) from the University of Southern California, where he is also on the Board of Trustees.

Blair Crump has served as our President, Global Enterprise since February 2012. Prior to salesforce.com, Mr. Crump was at Verizon Business, a provider of advanced IP communications and IT products and services, and served as its group president of worldwide sales and consulting services from 2008 to 2012 overseeing its enterprise, mid-tier, government, and education sales efforts globally. In his previous position as Senior Vice President of Premier and International Sales for Verizon Business, Mr. Crump was responsible for delivering strategic sales and support for Verizon's enterprise customers throughout the world. Mr. Crump previously served in various sales and marketing positions at MCI, which was acquired by Verizon in 2006. Mr. Crump holds a B.S. from the Wharton School at the University of Pennsylvania.

Parker Harris co-founded salesforce.com in February 1999 and has served in senior technical positions since inception. From December 2004 to February 2013, Mr. Harris served as our Executive Vice President, Technology. From October 1996 to February 1999, Mr. Harris was a Vice President at Left Coast Software, a Java consulting firm he co-founded. Mr. Harris received a B.A. from Middlebury College.

George Hu has served as our Chief Operating Officer since November 2011. Previously, Mr. Hu served as our Executive Vice President, Platform and Marketing from August 2010 to November 2011, our Executive Vice President, Marketing and Alliances from February 2009 to August 2010, our Executive Vice President, Marketing, Applications and Education from December 2007 to February 2009, our Chief Marketing Officer

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from October 2006 through December 2007, our Senior Vice President and General Manager, Applications from January to October 2006 and our Vice President, Product Marketing from October 2004 to January 2006. Mr. Hu has also served in various management positions in marketing since joining salesforce.com in March 2002. Mr. Hu received an A.B. from Harvard College and an M.B.A. from Stanford University.

Hilarie Koplow-McAdams has served as our President, Commercial and SMB Unit since February 2012. Prior to that Ms. Koplow-McAdams served as our Executive Vice President, Worldwide Sales from May 2010 to February 2012 and as our Executive Vice President, Global Corporate Sales from May 2008 to May 2010. Prior to salesforce.com, Ms. Koplow-McAdams was at Intuit, Inc., a provider of business and financial management software, and served as its Vice President of Direct Sales from 2006 to 2008. Ms. Koplow-McAdams previously served in various senior sales roles at Oracle Corporation. Ms. Koplow-McAdams holds a Master's degree in public policy from the University of Chicago and a B.A. from Mills College.

Burke Norton has served as our Executive Vice President and Chief Legal Officer since October 2011. From October 2006 to October 2011, Mr. Norton was Executive Vice President, General Counsel and Secretary and a member of the office of the chairman at Expedia, Inc. Previously, Mr. Norton was a partner at the law firm of Wilson Sonsini Goodrich & Rosati P.C., where he practiced corporate and securities law for 11 years, representing clients in the enterprise software, telecommunications, semiconductor, life sciences, entertainment and ecommerce industries. Mr. Norton holds a J.D. from the University of California, Berkeley School of Law.

Graham Smith has served as our Executive Vice President and Chief Financial Officer since March 2008. Prior to that, Mr. Smith served as our Executive Vice President and Chief Financial Officer Designate from December 2007 to March 2008. Prior to salesforce.com, Mr. Smith was at Advent Software, Inc., a provider of portfolio management software, and served as its Chief Financial Officer from January 2003 to December 2007. In addition to Advent Software, he served as Chief Financial Officer of Vitria Technology and Nuance Communications, and also served at Oracle Corporation in various senior finance roles, lastly as Vice President of Finance for worldwide operations. Mr. Smith also serves as a member of the Board of Directors at Splunk Inc. Mr. Smith holds a B.Sc. from Bristol University in England and qualified as a member of the Institute of Chartered Accountants in England and Wales.

Frank van Veenendaal has served as Vice Chairman since February 2012. Prior to that Mr. van Veenendaal served as our President, Worldwide Sales and Services from October 2009 to February 2012. Prior to this position, he was our Chief Sales Officer and President, Worldwide Sales from September 2008 to October 2009, our President, Global Corporate Sales and North American Operations from December 2007 to September 2008 and our President, Worldwide Corporate Sales and Services from February 2007 to December 2007. Since joining us in 2001, Mr. van Veenendaal has also served in various sales management positions, including Senior Vice President, North America Sales. From 1995 to 2001, Mr. van Veenendaal was Senior Vice President of Sales of Actuate Corporation, a software company. Mr. van Veenendaal received a B.S. from Rensselaer Polytechnic Institute.

Table of Contents**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 has been quoted on the New York Stock Exchange under the symbol CRM.

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

	High	Low
Fiscal year ending January 31, 2013		
First quarter	\$ 159.57	\$ 118.28
Second quarter	\$ 158.94	\$ 124.36
Third quarter	\$ 159.43	\$ 121.37
Fourth quarter	\$ 178.07	\$ 139.68
Fiscal year ending January 31, 2012		
First quarter	\$ 143.08	\$ 120.01
Second quarter	\$ 159.32	\$ 128.96
Third quarter	\$ 145.66	\$ 110.86
Fourth quarter	\$ 136.60	\$ 97.48

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.

Stockholders

As of January 31, 2013 there were 166 registered stockholders of record of our common stock, including The Depository Trust Company, which holds shares of salesforce.com common stock on behalf of an indeterminate number of beneficial owners.

Proposal to Increase Authorized Shares of Common Stock

On February 11, 2013, we filed a proxy statement in connection with our special meeting of stockholders scheduled for March 20, 2013. The sole matter to be voted on at the special meeting is a proposal to amend our certificate of incorporation in order to increase the number of authorized shares of common stock from 400,000,000 to 1,600,000,000. This increase is necessary for us to effectuate a proposed 4-for-1 forward stock split, as further described in the proxy statement.

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning our equity compensation plans is incorporated by reference herein to the section of the Proxy Statement entitled Equity Compensation Plan Information.

Issued Convertible Senior Notes and Warrants

During fiscal 2010, we issued at par value \$575.0 million of 0.75% convertible senior notes (the Notes) due January 15, 2015 and we issued 6.7 million warrants to purchase our common stock, as described in Note 5 Notes Payable of the consolidated financial statements.

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The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filing.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Index and the Nasdaq Computer & Data Processing Index for the period beginning on June 23, 2004 (the date our common stock commenced trading on the New York Stock Exchange) through January 31, 2013, assuming an initial investment of \$100. Data for the Standard & Poor's 500 Index and the Nasdaq Computer & Data Processing 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.

	6/23/2004	1/31/2005	1/31/2006	1/31/2007	1/31/2008	1/31/2009	1/31/2010	1/31/2011	1/31/2012	1/31/2013
salesforce.com	100	124.55	373.18	398.45	471.91	241.91	577.73	1,174.00	1,061.82	1,564.82
S&P 500 Index	100	103.25	111.89	125.71	120.5	72.19	93.86	112.42	114.72	130.95
Nasdaq Computer & Data Processing Index	100	100.45	111.93	116.62	117.84	71.02	116	153.34	162.74	170.19

Recent Sales of Unregistered Securities

On December 4, 2012, the Company issued 15,262 shares of Company common stock to former stockholders of Prior Knowledge, Inc., in a private transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2) and/or Regulation S under the Securities Act.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for fiscal 2013, 2012, and 2011, and the selected consolidated balance sheet data as of January 31, 2013 and 2012 are derived from, and are qualified by reference to, the audited consolidated financial statements and are included in this Form 10-K. The consolidated statement of operations data for fiscal 2010 and 2009 and the consolidated balance sheet data as of January 31, 2011, 2010 and 2009 are derived from audited consolidated financial statements which are not included in this Form 10-K.

(in thousands, except per share data)	Fiscal Year Ended January 31,				
	2013	2012	2011	2010	2009
Consolidated Statement of Operations					
Revenues:					
Subscription and support	\$ 2,868,808	\$ 2,126,234	\$ 1,551,145	\$ 1,209,472	\$ 984,574
Professional services and other	181,387	140,305	105,994	96,111	92,195
Total revenues	3,050,195	2,266,539	1,657,139	1,305,583	1,076,769
Cost of revenues (1)(2):					
Subscription and support	494,187	360,758	208,243	159,172	127,082
Professional services and other	189,392	128,128	115,570	98,753	93,389
Total cost of revenues	683,579	488,886	323,813	257,925	220,471
Gross profit	2,366,616	1,777,653	1,333,326	1,047,658	856,298
Operating expenses (1)(2):					
Research and development	429,479	295,347	187,887	131,897	99,530
Marketing and sales	1,614,026	1,169,610	792,029	605,199	534,413
General and administrative	433,821	347,781	255,913	195,290	158,613
Total operating expenses	2,477,326	1,812,738	1,235,829	932,386	792,556
Income (loss) from operations	(110,710)	(35,085)	97,497	115,272	63,742
Investment income	19,562	23,268	37,735	30,408	22,774
Interest expense	(30,948)	(17,045)	(24,909)	(2,000)	(107)
Other expense	(5,698)	(4,455)	(6,025)	(1,299)	(817)
Income (loss) before benefit from (provision for) income taxes and noncontrolling interest	(127,794)	(33,317)	104,298	142,381	85,592
Benefit from (provision for) income taxes	(142,651)	21,745	(34,601)	(57,689)	(37,557)
Consolidated net income (loss)	(270,445)	(11,572)	69,697	84,692	48,035
Less: net income attributable to noncontrolling interest	0	0	(5,223)	(3,973)	(4,607)
Net income (loss) attributable to salesforce.com	\$ (270,445)	\$ (11,572)	\$ 64,474	\$ 80,719	\$ 43,428
Net earnings per share-basic and diluted:					
Basic net income (loss) per share attributable to salesforce.com common shareholders	\$ (1.92)	\$ (0.09)	\$ 0.50	\$ 0.65	\$ 0.36
Diluted net income (loss) per share attributable to salesforce.com common shareholders	\$ (1.92)	\$ (0.09)	\$ 0.47	\$ 0.63	\$ 0.35
Shares used in computing basic net income (loss) per share	141,224	135,302	130,222	124,462	121,183
Shares used in computing diluted net income (loss) per share	141,224	135,302	136,598	128,114	125,228

(1) Amounts include amortization of purchased intangibles from business combinations, as follows:

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Cost of revenues	\$ 77,249	\$ 60,069	\$ 15,459	\$ 8,010	\$ 6,980
Marketing and sales	10,922	7,250	4,209	3,241	1,895
(2) Amounts include stock-based expenses, as follows:					
Cost of revenues	\$ 33,757	\$ 17,451	\$ 12,158	\$ 12,570	\$ 11,051
Research and development	76,333	45,894	18,897	13,129	9,852
Marketing and sales	199,284	115,730	56,451	39,722	36,028
General and administrative	69,976	50,183	32,923	23,471	20,435

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	2013	2012	As of January 31, 2011	2010	2009
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	\$ 1,758,285	\$ 1,447,174	\$ 1,407,557	\$ 1,727,048	\$ 882,565
(Negative) working capital	(901,744)	(627,809)	(201,542)	798,029	301,591
Total assets	5,528,956	4,164,154	3,091,165	2,460,201	1,479,822
Long-term obligations excluding deferred revenue and noncontrolling interest (3)	175,732	109,349	516,506	481,234	20,106
Retained earnings (deficit)	(110,982)	159,463	171,035	106,561	25,842
Total stockholders' equity controlling interest	2,317,633	1,587,360	1,276,491	1,043,802	671,784

- (3) Long-term obligations excluding deferred revenue and noncontrolling interest includes the 0.75% convertible senior notes issued in January 2010. At January 31, 2013 and 2012, the notes were convertible and accordingly were classified as a current liability.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements, including, without limitation, our expectations and statements regarding our outlook and future revenues, expenses, results of operations, liquidity, plans, strategies and objectives of management and any assumptions underlying any of the foregoing. Our actual results may differ significantly from those projected in the forward-looking statements. Our forward-looking statements and factors that might cause future actual results to differ materially from our recent results or those projected in the forward-looking statements include, but are not limited to, those discussed in the section titled "Forward-Looking Information and Risk Factors" of this Annual Report on Form 10-K. Except as required by law, we assume no obligation to update the forward-looking statements or our risk factors for any reason.

Overview

We are a provider of enterprise cloud computing solutions. We were founded on the simple concept of delivering customer relationship management, or CRM, applications via the Internet, or cloud. We introduced our first CRM solution in February 2000 and we have expanded our offerings with new editions, solutions and enhanced features, through internal development and acquisitions. We sell to businesses of all sizes and in almost every industry worldwide on a subscription basis.

Our mission is to help our customers transform themselves into customer companies by empowering them to connect with their customers, partners, employees and products in entirely new ways. Our objective is to deliver solutions to help companies transform the way they sell, service, market and innovate. With our four core services—Sales Cloud, Service Cloud, Marketing Cloud and the Salesforce Platform—customers have the tools they need to build a next generation social front office with our social and mobile cloud technologies. Key elements of our strategy include:

Strengthening our market-leading core solutions;

Innovating in high-growth markets;

Improve renewal rates;

Deepening relationships with our existing customer base;

Pursuing new customers aggressively;

Building our business in top markets globally; and

Encouraging the development of third-party applications on our cloud computing platforms.

We believe the factors that will influence our ability to achieve our objectives include: our prospective customers' willingness to migrate to enterprise cloud computing services; the availability, performance and security of our service; our ability to continue to release, and gain customer acceptance of, new and improved features; our ability to successfully integrate acquired businesses and technologies; successful customer adoption and utilization of our service; acceptance of our service in markets where we have few customers; the emergence of additional competitors in our market and improved product offerings by existing and new competitors; the location of new data centers; third-party developers' willingness to develop applications on our platforms; our ability to attract new personnel and retain and motivate current personnel; and general economic conditions which could affect our customers' ability and willingness to purchase our services, delay the customers' purchasing decision or affect renewal rates.

To address these factors, we will need to, among other things, continue to add substantial numbers of paying subscriptions, upgrade our customers to fully featured versions such as our Unlimited Edition or arrangements such as a Social Enterprise License Agreement, provide high

quality technical support to our customers,

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encourage the development of third-party applications on our platforms and continue to focus on retaining customers at the time of renewal. Our plans to invest for future growth include the continuation of the expansion of our data center capacity, the hiring of additional personnel, particularly in direct sales, other customer-related areas and research and development, the expansion of domestic and international selling and marketing activities, continuing to develop our brands, the addition of distribution channels, the upgrade of our service offerings, the development of new services, the integration of acquired technologies, the expansion of our Marketing Cloud and Salesforce Platform service offerings and the additions to our global infrastructure to support our growth.

We also regularly evaluate acquisitions or investment opportunities in complementary businesses, joint ventures, services and technologies, and intellectual property rights in an effort to expand our service offerings. We expect to continue to make such investments and acquisitions in the future and we plan to reinvest a significant portion of our incremental revenue in fiscal 2014 to grow our business and continue our leadership role in the cloud computing industry. As a result of our aggressive growth plans, specifically our hiring plan and acquisition activities, we have incurred significant expenses from equity awards and amortization of purchased intangibles which have resulted in net losses on a GAAP basis. As we continue with our growth plan, we anticipate we will have net losses on a GAAP basis for the next several quarters.

In November 2010, we purchased approximately 14 acres of undeveloped real estate in San Francisco, California, including entitlements and improvements associated with the land. We have capitalized all pre-construction activities related to the development of the land, including interest costs and property taxes since the November 2010 purchase. During the first quarter of fiscal 2013, we suspended pre-construction activity. The total carrying value of the land, building improvements and perpetual parking rights was \$321.1 million as of January 31, 2013. We continue to evaluate our future needs for office facilities space and our options for the undeveloped real estate.

We expect marketing and sales costs, which were 53 percent of our total revenues for fiscal 2013 and 52 percent for fiscal 2012, to continue to represent a substantial portion of total revenues in the future as we seek to add and manage more paying subscribers, and build greater brand awareness.

On August 13, 2012, we acquired the outstanding stock of Buddy Media, Inc., (Buddy), a social media marketing platform. We acquired Buddy for the assembled workforce, expected synergies and expanded market opportunities when integrating Buddy's social media marketing platform with our current offerings. The financial results of Buddy are included in our consolidated financial statements from the date of acquisition. The total purchase price for Buddy was \$735.8 million.

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. In our evaluation, we considered our cumulative loss in recent years and our forecasted future losses as significant pieces of negative evidence. During the third quarter of fiscal 2013, we determined that the negative evidence outweighed the positive evidence as of October 31, 2013 and recorded a one-time, non-cash charge to income tax expense in the third quarter of fiscal 2013 in the amount of \$149.1 million to establish a valuation allowance for a significant portion of our deferred tax assets. This accounting treatment has no effect on our actual ability to utilize deferred tax assets such as loss carryforwards and tax credits to reduce future cash tax payments. We will continue to assess the realizability of the deferred tax assets in each of the applicable jurisdictions going forward and adjust the valuation allowance accordingly.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2013, for example, refer to the fiscal year ending January 31, 2013.

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Sources of Revenues

We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing services and from customers purchasing additional support beyond the standard support that is included in the basic subscription fees; and (2) related professional services such as process mapping, project management, implementation services and other revenue. Other revenue consists primarily of training fees. Subscription and support revenues accounted for approximately 94 percent of our total revenues during fiscal 2013. Subscription revenues are driven primarily by the number of paying subscribers, varying service types, the price of our service and service renewal rates. We define a customer as a separate and distinct buying entity (e.g., a company, a distinct business unit of a large corporation, a partnership, etc.) that has entered into a contract to access our enterprise cloud computing services. We define a subscription as a unique user account purchased by a customer for use by its employees or other customer-authorized users, and we refer to each such user as a subscriber. The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues during fiscal 2013, 2012, or 2011.

Subscription and support revenues are recognized ratably over the contract terms beginning on the commencement dates of each contract. The typical subscription and support term is 12 to 36 months, although terms range from one to 60 months. Our subscription and support contracts are non-cancelable, though customers typically have the right to terminate their contracts for cause if we materially fail to perform. We generally invoice our customers in advance, in annual or quarterly installments, and typical payment terms provide that our customers pay us within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue, or in revenue depending on whether the revenue recognition criteria have been met. In general, we collect our billings in advance of the subscription service period.

Professional services and other revenues consist of fees associated with consulting and implementation services and training. Our consulting and implementation engagements are typically billed on a time and materials basis. We also offer a number of training classes on implementing, using and administering our service that are billed on a per person, per class basis. Our typical professional services payment terms provide that our customers pay us within 30 days of invoice.

In determining whether professional services can be accounted for separately from subscription and support revenues, we consider a number of factors, which are described in *Critical Accounting Policies and Estimates Revenue Recognition* below. Prior to February 1, 2011, the deliverables in multiple-deliverable arrangements were accounted for separately if the delivered items had standalone value and there was objective and reliable evidence of fair value for the undelivered items. If the deliverables in a multiple-deliverable arrangement could not be accounted for separately, the total arrangement fee was recognized ratably as a single unit of accounting over the contracted term of the subscription agreement. A significant portion of our multiple-deliverable arrangements were accounted for as a single unit of accounting because we did not have objective and reliable evidence of fair value for certain of our deliverables. Additionally, in these situations, we deferred the direct costs of a related professional service arrangement and amortized those costs over the same period as the professional services revenue was recognized.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which amended the previous multiple-deliverable arrangements accounting guidance. Pursuant to the new guidance, objective and reliable evidence of fair value of the deliverables to be delivered is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price. In the first quarter of fiscal 2012, we adopted this new accounting guidance on a prospective basis. We applied the new accounting guidance to those multiple-deliverable arrangements entered into or materially modified on or after February 1, 2011 which was the beginning of our fiscal 2012.

Table of Contents**Seasonal Nature of Deferred Revenue and Accounts Receivable**

Deferred revenue primarily consists of billings to customers for our subscription service. Over 90 percent of the value of our billings to customers is for our subscription and support service. We generally invoice our customers in either annual or quarterly cycles. In the fourth quarter of fiscal 2012, we introduced greater operational discipline around annual invoicing, for both new business and renewals which resulted in an increase in deferred revenue. The fourth quarter of fiscal 2013 marks the one year anniversary of this operational shift, therefore the incremental benefit to deferred revenue from annual invoicing was lower than it was in the fourth quarter of fiscal 2012. Occasionally, we bill customers for their multi-year contract on a single invoice which results in an increase in noncurrent deferred revenue. We typically issue renewal invoices 30 days in advance of the renewal service period, and depending on timing, the initial invoice for the subscription and services contract and the subsequent renewal invoice may occur in different quarters. This may result in an increase in deferred revenue and accounts receivable. There is a disproportionate weighting towards annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Our fourth quarter has historically been our strongest quarter for new business and renewals. The year on year compounding effect of this seasonality in both billing patterns and overall new and renewal business causes the value of invoices that we generate in the fourth quarter for both new business and renewals to increase as a proportion of our total annual billings.

Accordingly, the sequential quarterly changes in accounts receivable and the related deferred revenue during the first three quarters of our fiscal year are not necessarily indicative of the billing activity that occurs in the fourth quarter as displayed below:

(in thousands)	April 30, 2012	July 31, 2012	October 31, 2012	January 31, 2013
Fiscal 2013				
Accounts receivable, net	\$ 371,395	\$ 446,917	\$ 418,590	\$ 872,634
Deferred revenue, current and noncurrent	1,334,716	1,337,184	1,291,703	1,862,995

(in thousands)	April 30, 2011	July 31, 2011	October 31, 2011	January 31, 2012
Fiscal 2012				
Accounts receivable, net	\$ 270,816	\$ 342,397	\$ 312,331	\$ 683,745
Deferred revenue, current and noncurrent	915,133	935,266	917,821	1,380,295

(in thousands)	April 30, 2010	July 31, 2010	October 31, 2010	January 31, 2011
Fiscal 2011				
Accounts receivable, net	\$ 183,612	\$ 228,550	\$ 258,764	\$ 426,943
Deferred revenue, current and noncurrent	664,529	683,019	694,557	934,941

Unbilled Deferred Revenue

The deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Unbilled deferred revenue represents future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. Unbilled deferred revenue was approximately \$3.5 billion as of January 31, 2013 and approximately \$2.2 billion as of January 31, 2012. Due to our sales to large enterprise accounts, we are experiencing longer contractual commitments by our customers which is reflected in our growing unbilled deferred revenue. Also as a result, our average contract length has grown and is now between 12 and 36 months. This has a positive impact on our renewal rate. We expect that the amount of unbilled deferred revenue will change from quarter to quarter for several reasons, including the specific timing and duration of large customer subscription agreements, varying billing cycles of subscription agreements, the specific timing of customer renewals, foreign currency fluctuations, the timing of when unbilled deferred revenue is to be recognized as revenue, and changes in customer financial circumstances. For multi-year subscription agreements billed annually, the associated unbilled deferred revenue is typically high at the beginning of the contract period, zero

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just prior to renewal, and increases if the agreement is renewed. Low unbilled deferred revenue attributable to a particular subscription agreement is often associated with an impending renewal and may not be an indicator of the likelihood of renewal or future revenue from such customer. Accordingly, we expect that the amount of aggregate unbilled deferred revenue will change from year-to-year depending in part upon the number and dollar amount of subscription agreements at particular stages in their renewal cycle. Such fluctuations are not a reliable indicator of future revenues.

Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of subscription and support revenues primarily consists of expenses related to hosting our service and providing support, the costs of data center capacity, depreciation or operating lease expense associated with computer equipment and software, allocated overhead and amortization expense associated with capitalized software related to our services and acquired developed technologies. We allocate overhead such as information technology infrastructure, rent and occupancy charges based on headcount. Employee benefit costs and taxes are allocated based upon a percentage of total compensation expense. As such, general overhead expenses are reflected in each cost of revenue and operating expense category. Cost of professional services and other revenues consists primarily of employee-related costs associated with these services, including stock-based expenses, the cost of subcontractors and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenue than for our enterprise cloud computing subscription service due to the direct labor costs and costs of subcontractors.

We intend to continue to invest additional resources in our enterprise cloud computing services. For example, we plan to open additional data centers and expand our current data centers in the future. Additionally, as we acquire new businesses and technologies, the amortization expense associated with this activity will be included in cost of revenues. The timing of these additional expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in the affected periods.

Research and Development. Research and development expenses consist primarily of salaries and related expenses, including stock-based expenses, the costs of our development and test data center and allocated overhead. We continue to focus our research and development efforts on adding new features and services, integrating acquired technologies, increasing the functionality and security and enhancing the ease of use of our enterprise cloud computing services. Our proprietary, scalable and secure multi-tenant architecture enables us to provide all of our customers with a service based on a single version of our application. As a result, we do not have to maintain multiple versions, which enables us to have relatively lower research and development expenses as compared to traditional enterprise software companies. We expect that in the future, research and development expenses will increase in absolute dollars and may increase as a percentage of total revenues as we invest in building the necessary employee and system infrastructure required to support the development of new, and improve existing, technologies and the integration of acquired businesses and technologies.

Marketing and Sales. Marketing and sales expenses are our largest cost and consist primarily of salaries and related expenses, including stock-based expenses, for our sales and marketing staff, including commissions, payments to partners, marketing programs and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities.

We plan to continue to invest in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness, attracting new customers and sponsoring additional marketing events. The timing of these marketing events, such as our annual and largest event, Dreamforce, will affect our marketing costs in a particular quarter. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost.

General and Administrative. General and administrative expenses consist of salaries and related expenses, including stock-based expenses, for finance and accounting, legal, internal audit, human resources and management information systems personnel, legal costs, professional fees, other corporate expenses and allocated overhead. We expect that in the future, general and administrative expenses will increase in absolute

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dollars as we invest in our infrastructure and we incur additional employee related costs, professional fees and insurance costs related to the growth of our business and international expansion. We expect general and administrative costs as a percentage of total revenues to either remain flat or decrease for the next several quarters.

Stock-Based Expenses. Our cost of revenues and operating expenses include stock-based expenses related to equity plans for employees and non-employee directors. We recognize our stock-based compensation as an expense in the statement of operations based on their fair values and vesting periods. These charges have been significant in the past and we expect that they will increase as our stock price increases, as we hire more employees and seek to retain existing employees.

For fiscal 2013, we recognized stock-based expense of \$379.4 million. As of January 31, 2013, the aggregate stock compensation remaining to be amortized to costs and expenses was \$1.2 billion. We expect this stock compensation balance to be amortized as follows: \$491.0 million during fiscal 2014; \$394.2 million during fiscal 2015; \$249.8 million during fiscal 2016; and \$92.5 million during fiscal 2017. The expected amortization reflects only outstanding stock awards as of January 31, 2013 and assumes no forfeiture activity. We expect to continue to issue stock-based awards to our employees in future periods.

Amortization of Purchased Intangibles from Business Combinations. Our cost of revenues and operating expenses include amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts, trade names, customer lists and customer relationships. We expect this expense to increase as we acquire more companies.

Critical Accounting Estimates

Our consolidated financial statements are 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, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in Note 1 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition. We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing services and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services such as process mapping, project management, implementation services and other revenue. Other revenue consists primarily of training fees.

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

There is persuasive evidence of an arrangement;

The service has been or is being provided to the customer;

The collection of the fees is reasonably assured; and

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

Our subscription service arrangements are non-cancelable and do not contain refund-type provisions.

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Subscription and Support Revenues

Subscription and support revenues are recognized ratably over the contract terms beginning on the commencement date of each contract, which is the date our service is made available to customers. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

Professional Services and Other Revenues

The majority of our professional services contracts are on a time and material basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized after the services are performed.

Multiple-Deliverable Arrangements

We enter into arrangements with multiple-deliverables that generally include subscription, premium support, and professional services.

Prior to February 1, 2011, the deliverables in multiple-deliverable arrangements were accounted for separately if the delivered items had standalone value and there was objective and reliable evidence of fair value for the undelivered items. If the deliverables in a multiple-deliverable arrangement could not be accounted for separately, the total arrangement fee was recognized ratably as a single unit of accounting over the contracted term of the subscription agreement. A significant portion of our multiple-deliverable arrangements were accounted for as a single unit of accounting because we did not have objective and reliable evidence of fair value for certain of our deliverables. Additionally, in these situations, we deferred the direct costs of a professional services arrangement and amortized those costs over the same period as the professional services revenue is recognized.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which amended the previous multiple-deliverable arrangements accounting guidance. Pursuant to the updated guidance, objective and reliable evidence of fair value of the deliverables to be delivered is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price.

In the first quarter of fiscal 2012, we adopted this updated accounting guidance on a prospective basis. We have applied the updated accounting guidance to those multiple-deliverable arrangements entered into or materially modified on or after February 1, 2011 which was the beginning of fiscal 2012.

The adoption of this updated accounting guidance did not have a material impact on our financial condition, results of operations or cash flows for the fiscal year ended January 31, 2012. As of January 31, 2013, the deferred professional services revenue and deferred costs under the previous accounting guidance are \$9.3 million and approximately \$3.9 million, respectively, which will continue to be recognized over the related remaining subscription period.

Under the updated accounting guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the

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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. To date, we have concluded that all of the professional services included in multiple-deliverable arrangements executed have standalone value.

Under the updated accounting guidance, when multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on its vendor-specific objective evidence of selling price (VSOE), if available, or our best estimate of selling price (BESP), if VSOE is not available. We have determined that third-party evidence (TPE) is not a practical alternative due to differences in our service offerings compared to other parties and the availability of relevant third-party pricing information. The amount of revenue allocated to delivered items is limited by contingent revenue, if any.

For certain professional services, we have established VSOE as a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. We have not established VSOE for our subscription services due to lack of pricing consistency, the introduction of new services and other factors. Accordingly, we use our BESP to determine the relative selling price.

We determined BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where our services are sold, our price lists, our go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

Deferred Revenue. The deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription service described above and is recognized as the revenue recognition criteria are met. We generally invoice customers in annual or quarterly installments. Deferred revenue is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing and new business linearity within the quarter.

As a result of the updated accounting guidance previously described, billings against professional services arrangements entered into prior to February 1, 2011 were generally added to deferred revenue and recognized over the remaining related subscription contract term.

Deferred revenue that will be recognized during the succeeding twelve month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Deferred Commissions. We defer commission payments to our direct sales force. The commissions are deferred and amortized to sales expense over the non-cancelable terms of the related subscription contracts with our customers, which are typically 12 to 36 months. The commission payments, which are paid in full the month after the customer's service commences, are a direct and incremental cost of the revenue arrangements. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. We believe this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable customer contracts that they should be recorded as an asset and charged to expense over the same period that the subscription revenue is recognized.

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During fiscal 2013, we deferred \$232.6 million of commission expenditures and we amortized \$154.8 million to sales expense. During the same period a year ago, we deferred \$167.2 million of commission expenditures and we amortized \$107.2 million to sales expense. Deferred commissions on our consolidated balance sheets totaled \$254.4 million at January 31, 2013 and \$176.6 million at January 31, 2012.

Goodwill and Long-Lived Assets. We make estimates, assumptions, and judgments when valuing goodwill and other intangible assets in connection with the initial purchase price allocation of an acquired entity, as well as when evaluating the recoverability of our goodwill and other intangible assets on an ongoing basis. These estimates are based upon a number of factors, including historical experience, market conditions, and information obtained from the management of acquired companies. Critical estimates in valuing certain intangible assets include, but are not limited to, historical and projected customer retention rates, anticipated growth in revenue from the acquired customers and acquired technology, and the expected use of the acquired assets. These factors are also considered in determining the useful life of acquired intangible assets. The amounts and useful lives assigned to identified intangible assets impacts the amount and timing of future amortization expense.

The value of our goodwill and intangible assets could be impacted by future adverse changes such as, but not limited to: a substantial decline in our market capitalization; an adverse action or assessment by a regulator; and unanticipated competition.

We evaluate and test the recoverability of our goodwill for impairment at least annually during the fourth quarter or more often if and when circumstances indicate that goodwill may not be recoverable. Each period we evaluate the estimated remaining useful life of our intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. We evaluate long-lived assets, such as property and equipment, and purchased intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such events or changes in circumstances include, but are not limited to, a significant decrease in the fair value of the underlying asset, a significant decrease in the benefits realized from the acquired assets, difficulty and delays in integrating the business or a significant change in the operations of the acquired assets or use of an asset. A long-lived asset is considered impaired if its carrying amount exceeds the estimated future undiscounted cash flows the asset is expected to generate. If a long-lived asset is considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset or asset group.

Strategic Investments. We report our investments in non-marketable equity and debt securities, which consist of minority equity and debt investments in privately-held companies, at cost or fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. Management evaluates financial results, earnings trends, technology milestones and subsequent financing of these companies, as well as the general market conditions to identify indicators of other-than-temporary impairment.

Business Combinations. Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date with respect to tangible and intangible assets acquired and liabilities assumed and pre-acquisition contingencies. We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date.

Examples of critical estimates in valuing certain of the intangible assets and goodwill we have acquired include but are not limited to:

future expected cash flows from subscription and support contracts, professional services contracts, other customer contracts and acquired developed technologies and patents;

expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

the acquired company's trade name, trademark and existing customer relationship, as well as assumptions about the period of time the acquired trade name and trademark will continue to be used in our offerings;

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uncertain tax positions and tax related valuation allowances assumed; and

discount rates.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Stock-Based Options and Awards. We recognize the fair value of our stock options and awards on a straight-line basis over the requisite service period of the option or award which is the vesting term of generally four years for stock options and restricted stock awards and one year for shares issued pursuant to our Employee Stock Purchase Plan (ESPP). The fair value of each option or award is estimated on the date of grant using the Black-Scholes option pricing model. The estimated forfeiture rate applied is based on historical forfeiture rates. Inputs into the Black-Scholes option pricing model include:

The estimated life for the stock options which is estimated based on an actual analysis of expected life. The estimated life for shares issued pursuant to our ESPP is based on the two purchase periods within the 12 month offering period;

The risk free interest rate which is based on the rate for a U.S. government security with the same estimated life at the time of the option grant and the stock purchase rights; and

The future stock price volatility which is estimated considering both our observed option-implied volatilities and our historical volatility calculations. We believe this is the best estimate of the expected volatility over the expected life of our stock options and stock purchase rights.

Income Taxes. We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of operations in the period that includes the enactment date.

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 that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our income tax provision.

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 on a jurisdictional basis 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. Examples of positive and negative evidence include historical taxable income or losses, forecasted income or losses, the estimated timing of the reversals of existing temporary differences as well as prudent and feasible tax planning strategies. Valuation allowance is established when necessary to reduce deferred tax assets to the amounts more likely than not expected to be realized. Our income tax provision would increase or decrease in the period in which the assessment is changed.

Our tax provision could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and accounting principles as well as changes in excess tax benefits related to exercises and vesting of stock-based compensation that are allocated directly to stockholders' equity.

Table of Contents**Results of Operations**

The following tables set forth selected data for each of the periods indicated (in thousands):

	Fiscal Year Ended January 31,		
	2013	2012	2011
Revenues:			
Subscription and support	\$ 2,868,808	\$ 2,126,234	\$ 1,551,145
Professional services and other	181,387	140,305	105,994
Total revenues	3,050,195	2,266,539	1,657,139
Cost of revenues:			
Subscription and support	494,187	360,758	208,243
Professional services and other	189,392	128,128	115,570
Total cost of revenues	683,579	488,886	323,813
Gross profit	2,366,616	1,777,653	1,333,326
Operating expenses:			
Research and development	429,479	295,347	187,887
Marketing and sales	1,614,026	1,169,610	792,029
General and administrative	433,821	347,781	255,913
Total operating expenses	2,477,326	1,812,738	1,235,829
Income (loss) from operations	(110,710)	(35,085)	97,497
Investment income	19,562	23,268	37,735
Interest expense	(30,948)	(17,045)	(24,909)
Other expense	(5,698)	(4,455)	(6,025)
Income (loss) before benefit from (provision for) income taxes and noncontrolling interest	(127,794)	(33,317)	104,298
Benefit from (provision for) income taxes	(142,651)	21,745	(34,601)
Consolidated net income (loss)	(270,445)	(11,572)	69,697
Less: Net income attributable to noncontrolling interest	0	0	(5,223)
Net income (loss) attributable to salesforce.com	\$ (270,445)	\$ (11,572)	\$ 64,474

	As of January 31,	
	2013	2012
Balance Sheet Data:		
Cash, cash equivalents and marketable securities	\$ 1,758,285	\$ 1,447,174
Deferred revenue, current and noncurrent	1,862,995	1,380,295

Unbilled deferred revenue was approximately \$3.5 billion as of January 31, 2013 and \$2.2 billion as of January 31, 2012. Unbilled deferred revenue represents future billings under our non-cancelable subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue.

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Cost of revenues and marketing and sales expenses include the following amounts related to amortization of purchased intangibles from business combinations:

	Fiscal Year Ended January 31,		
	2013	2012	2011
Cost of revenues	\$ 77,249	\$ 60,069	\$ 15,459
Marketing and sales	10,922	7,250	4,209

Cost of revenues and operating expenses include the following amounts related to stock-based awards:

	Fiscal Year Ended January 31,		
	2013	2012	2011
Cost of revenues	\$ 33,757	\$ 17,451	\$ 12,158
Research and development	76,333	45,894	18,897
Marketing and sales	199,284	115,730	56,451
General and administrative	69,976	50,183	32,923

Revenues by geography were as follows:

	Fiscal Year Ended January 31,		
	2013	2012	2011
Revenues by geography:			
Americas	\$ 2,123,736	\$ 1,540,289	\$ 1,135,019
Europe	525,304	408,456	291,784
Asia Pacific	401,155	317,794	230,336
	\$ 3,050,195	\$ 2,266,539	\$ 1,657,139

Approximately 94 percent, 93 percent and 94 percent of the Americas revenue in fiscal 2013, 2012 and 2011, respectively, was attributed to the United States.

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The following tables set forth selected consolidated statements of operations data for each of the periods indicated as a percentage of total revenues:

	Fiscal Year Ended January 31,		
	2013	2012	2011
Revenues:			
Subscription and support	94%	94%	94%
Professional services and other	6	6	6
Total revenues	100	100	100
Cost of revenues:			
Subscription and support	16	16	13
Professional services and other	6	6	7
Total cost of revenues	22	22	20
Gross profit	78	78	80
Operating expenses:			
Research and development	14	13	11
Marketing and sales	53	52	48
General and administrative	15	15	15
Total operating expenses	82	80	74
Income (loss) from operations	(4)	(2)	6
Investment income	1	1	2
Interest expense	(1)	(1)	(2)
Other expense	0	0	0
Income (loss) before benefit from (provision for) income taxes and noncontrolling interest	(4)	(2)	6
Benefit from (provision for) income taxes	(5)	1	(2)
Consolidated net income (loss)	(9)	(1)	4
Less: Net income attributable to noncontrolling interest	0	0	0
Net income (loss) attributable to salesforce.com	(9)%	(1)%	4%

	Fiscal Year Ended January 31,		
	2013	2012	2011
Revenues by geography:			
Americas	70%	68%	68%
Europe	17	18	