SALESFORCE COM INC
Form 10-K
March 06, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2015
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)

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 ý 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 ý
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 ý 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 ý 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):

Large accelerated filer x	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 Exchange Act). Yes ¨ No x

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, 2014, the aggregate market value of its shares (based on a closing price of $54.25 per share) held by non-affiliates was approximately $24.4 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, 2015, there were approximately 650.6 million shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2015 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended January 31, 2015, are incorporated by reference in Parts II and 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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FORWARD-LOOKING INFORMATION

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, the impact of foreign currency exchange rate and interest rate fluctuations on our results, 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 businesses, joint ventures, services and technologies, and intellectual property rights, our ability to successfully integrate acquired businesses and technologies, our ability to continue the growth and to maintain deferred revenue and unbilled deferred revenue, our ability to protect our intellectual property rights, our ability to develop our brands, our ability to realize the benefits from strategic partnerships, the effect of evolving government regulations, the valuation of deferred tax assets, 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, factors related to our outstanding convertible notes, revolving credit facility, compliance with our related debt covenants, and capital lease obligations, and current 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,” “assumes,” “may,” “should,” “could,” “f 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

Salesforce is a leading provider of enterprise cloud computing solutions, with a focus on customer relationship management, or CRM. We introduced our first CRM solution in February 2000, and we have since expanded that offering with new editions, solutions, enhanced features, platform capabilities and a new analytics solution through internal development and acquisitions.

Our mission is to help our customers transform themselves into “customer companies” by empowering them to connect with their customers in entirely new ways. With our six core cloud service offerings, including sales force automation, customer service and support, marketing automation, community management, analytics and a cloud platform for building custom applications, we provide a next generation customer success platform.

Our service offerings 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 leading mobile devices.

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.

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.

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The Cloud, Social, Mobile and Data Science Revolutions

We believe that the convergence of cloud, social, mobile and data science technologies is fundamentally transforming how companies sell, service, market, engage and innovate.

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 has transformed the way people engage and collaborate and is accelerating the adoption of technologies that connect people and products through “feeds” and notifications. In addition, the proliferation of mobile phones worldwide continues, and enterprise mobile apps are making it possible for people to conduct business from their phones. As more people and devices become connected, companies are looking for new ways to harness the multitude of data from these connections for new insights to drive business success. Progress in data science and machine learning will move companies beyond just automating business processes to more data-driven, predictive computing.

We believe Salesforce is at the forefront of delivering more than a system of record and a system of engagement, but also a system of intelligence for companies of every size and industry to connect with their customers in entirely new ways.

Our Six Cloud Service Offerings

We provide enterprise cloud computing solutions that include apps and platform services, as well as professional services to facilitate the adoption of our solutions. We offer six core service offerings, all integrated on a single platform, that empower companies to grow sales faster, deliver customer service on multiple devices, market through one-to-one customer journeys, build branded communities for customers, partners and employees, deliver analytics for every business user and develop mobile apps quickly and easily.

Our core service offerings are as follows:

Sales Cloud. The Sales Cloud is a platform for sales force automation that enables companies to store data, access accurate customer and prospect information, track leads and progress, forecast opportunities and collaborate around any sale on desktop and mobile devices. Our customers use the Sales Cloud to grow their sales pipelines, close more deals, improve sales productivity and gain valuable business insights. The Sales Cloud also offers solutions for partner relationship management (including channel management and partner communities) and complete, accurate customer and contact information.

Service Cloud. The Service Cloud is a platform for customer service, enabling companies to effectively address their customer service and support needs. Our customers use the Service Cloud to connect their customer service agents with customers on a multitude of devices and across multiple channels—phone, email, chat, self-service web portals, social networks, online communities and directly within their own products and apps.

Marketing Cloud. The Marketing Cloud is a platform for digital marketing that enables companies to plan, personalize and optimize one-to-one customer interactions. Our customers use the Marketing Cloud to map customer journeys to digital marketing interactions across email, mobile, social, web and connected products. With the Marketing Cloud, customer data can also 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.

Community Cloud. The Community Cloud, which we announced as a core service offering in October 2014, is a platform for creating trusted, branded destinations for customers, partners and employees to collaborate. It enables companies to engage directly with a specific group of people by giving them access to relevant information, apps and experts.

Analytics Cloud. The Analytics Cloud, which we announced as a core service offering in October 2014, is an app and platform for business intelligence. It enables companies to quickly deploy sales, service, marketing and custom analytics apps using any data source. Our customers use the Analytics Cloud to enable any employee to quickly and easily explore business data, uncover new insights, make smarter decisions and take action from anywhere on their mobile device.

Salesforce1 Platform. The Salesforce1 Platform is a cloud platform for developing apps. The Salesforce1 Platform is delivered as a service, enabling anyone to build business apps without the burden of managing hardware and software. Our customers, developers and independent software vendors (“ISVs”) use the Salesforce1 Platform to build apps that manage a variety of business processes and can be accessed anytime and on any mobile device. In addition, the Salesforce1 Platform gives customers the ability to create multiple copies of their company's Salesforce instance in separate environments for a variety of purposes, such as testing and training.

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Professional Services

We offer consulting, deployment, training, implementation and integration services to our customers to facilitate the adoption of our cloud solutions. Our professional service engagements can be billed on a time and materials basis, for a fixed fee or through annual contracts.

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 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. In addition, there is a selection of online educational classes available at no charge to customers that subscribe to our customer service plans.

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 hardware and software.

Ease of integration and configuration. IT professionals are able to integrate and configure 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 Salesforce1 Platform 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. We have also designed our solutions to be used on mobile devices, making it possible for people to conduct business from their phones.

Rapid development of apps using the Salesforce1 Platform. Our customers and third-party developers can create 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 support a variety of programming language support so developers can code complex apps spanning multiple business processes and deliver them via 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. Developers with ideas for a new app can create, test and support their solutions on the Salesforce1 Platform and make the app accessible for a subscription fee to 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. 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, engage 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 and customize apps.

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Key elements of our strategy include:

Strengthening our solutions. We offer multiple editions of our solutions at different price points to meet the needs of customers of different sizes and we have designed our solutions to easily accommodate new features and functionality. We intend to continue to extend all editions of our core solutions with new features and functions and increased security through our own development, acquisitions and partnerships.

Expanding into new and high-growth categories. As part of our growth strategy, we are delivering innovative solutions in new and high-growth categories, including marketing, communities, business intelligence and cloud platforms.

Extending strategic 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 upgrade the customer to premium editions, extend the duration of the customers' contracts and sell more subscriptions by targeting additional functional areas and business units within the customer organization, and ultimately pursue enterprise-wide deployments.

Pursuing new customers. 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 in top industries and major regions, 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.

Reducing attrition. 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.

Building our business in top software markets globally. We believe that there is a substantial market opportunity for our solutions globally. We plan to continue to aggressively market and sell to customers worldwide via local sales and support professionals with deep expertise in target industries and through partnerships with ISVs and system integrators. Additionally, we plan to increase data center capacity by opening additional data centers in our top global markets.

Encouraging the development of third-party apps on our cloud computing platforms. The Salesforce1 Platform enables existing customers, ISVs and third-party developers to create and deliver cloud apps. 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 developers and software vendors will address the business requirements of both current and potential customers.

Technology, Development and Operations

We deliver our Salesforce solutions as highly scalable, cloud-computing application and platform services on a multi-tenant technology architecture.

Multi-tenancy is an architectural approach that allows us to operate a single application instance for multiple organizations, treating all customers as separate tenants who run in virtual isolation from each other. Customers can use and customize an application as though they each have a separate instance, yet their data and customizations remain secure and insulated from the activities of all other tenants. Our multi-tenant services run on a single stack of hardware and software, which is comprised of commercially available hardware and a combination of proprietary and commercially available software. As a result, we are able to spread the cost of delivering our services 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. Multi-tenancy also allows for faster bug and security fixes, automatic software updates and the ability to deploy major releases and frequent, incremental improvements to our services, benefiting the entire user community.

Our services are optimized to run on specific databases and operating systems using the tools and platforms best suited to serve our customers rather than on-premise software that must be written to the different hardware, operating systems and database platforms existing within a customer’s unique systems environment. Our developers build and support solutions and features on a single code base on our chosen technology platform.

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 features, functionality and services. From time to time, we supplement our internal research and development activities with outside development resources and acquired technology. As part of our business strategy, we periodically acquire companies or technologies, and we incorporate the acquired technologies into our solutions. Performance, functional depth and the usability of our solutions influence our technology decisions and product direction.

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

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We provide the majority of our services to our customers from infrastructure operated by us but secured within third-party data center hosting facilities located in the United States and other countries. These third-party data center providers provide space, physical security, continuous power and cooling. The remainder of our services operate from cloud computing platform providers who offer Infrastructure as a Service, including servers, storage, databases and networking.

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 installments. Deferred revenue and unbilled deferred revenue are influenced by several factors, including new business seasonality within the year, the specific timing, size 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.

Customers

We sell to businesses of all sizes and in almost every industry worldwide. 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 2015, 2014 or 2013.

Transactions

Our transaction volume, representing transactions processed through our solutions and platform, excluding Marketing Cloud and one of our platform service offerings, Heroku, was 585 billion for fiscal 2015, an increase of 59 percent as compared to fiscal 2014. A transaction is a retrieval or update within the Salesforce database, which can be a page load, an information query, or an API call, among others.

Our transaction metrics are used to illustrate the growing usage of our service by our customers and to highlight the scalability of our service. We do not believe transaction metrics are key performance indicators of our financial condition. Specifically, there is no direct correlation between the transaction activity and our financial results, such as revenue or expense growth. Additionally, transaction activity cannot be relied upon as an indicator of future financial performance.

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 28 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.

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.

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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, such as Dreamforce, as well as participation in trade shows and industry events, to create customer and prospect awareness;
- Content 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;
- 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 can include services such as priority access to technical resources, developer support, and system administration. In addition, we offer a mission critical support add-on that is designed to provide customers with responses for incidents from a dedicated team knowledgeable about the customer's specific enterprise architecture, and which offers instruction to optimize their usage of our products.

Seasonality

Our fourth quarter has historically been our strongest quarter for new business and renewals, and our first quarter is historically our largest collections and operating cash flow quarter. 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 and frequent introductions of new products and services. Many prospective customers have invested substantial personnel and financial resources to implement and integrate their current enterprise software into their businesses and therefore may be reluctant or unwilling to migrate away from their current solution 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. We may encounter competition from enterprise software vendors 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:

- On premise offerings from 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;
- Social media companies;
- Traditional platform development environment companies,
- Cloud computing development platform companies; and
- Internally developed applications (by our potential customers’ information technology (“IT”) departments).

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

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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 brands and maintain programs to protect and grow our rights. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, services, documentation and other proprietary information. We believe the duration of our patents is adequate relative to the expected lives of our service offerings.

Employees

As of January 31, 2015, we had more than 16,000 employees. None of our employees in the United States is represented by a labor union, however, for certain foreign subsidiaries, workers' councils represent our employees.

Available Information

You can obtain copies of our Annual Report on 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 website 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 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 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 services could diminish demand for our services and subject us to substantial liability.

Because our services are complex and incorporate a variety of hardware and proprietary and third-party software, our services may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. Cloud 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 services and new errors in our services may be detected in the future. In addition, our customers may use our services in unanticipated ways that may cause a disruption in services for other customers attempting to access their data. As we acquire companies, we may encounter difficulty in incorporating the acquired technologies into our services and maintaining the quality standards that are consistent with our brand and reputation. Since our customers use our services 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 our services or delay or withhold payment to us. We could also 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 services from our third-party data center hosting facilities or cloud computing platform providers could impair the delivery of our services and harm our business.

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

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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 served through alternate facilities. We do not control the operation of any of these facilities, and they may be 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 services. Even with disaster recovery arrangements, our services 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 services, which may damage our business.

If our security measures or those of our third-party data center hosting facilities, cloud computing platform providers, or third-party service partners, are breached, and unauthorized access is obtained to a customer's data, our data or our IT systems, our services may be perceived as not being secure, customers may curtail or stop using our services, and we may incur significant legal and financial exposure and liabilities.

Our services involve 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. While we have security measures in place, they 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 IT data, our customers' data or our data, including our intellectual property and other confidential business information. 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, our data or our 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, and some of our customers may not have adequate security measures in place to protect their data that is stored on our services. Because we do not control our customers or 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 services, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

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

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:

- 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;
- the potential entry into 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 of the acquired company;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- inability to maintain relationships with customers and partners of the acquired business;
-

- difficulty of transitioning the acquired technology onto our existing platforms and maintaining the security standards for such technology consistent with our other services;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into our 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 and unbilled deferred revenue;

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- 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.

Any of these risks could harm our business. In addition, if we finance acquisitions by issuing equity or convertible or other debt securities or loans, 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 that could affect the market price of our common stock. Also, valuations of privately-held companies are inherently complex due to the lack of readily available market data. If we determine that any of our investments in such companies have experienced a decline in fair value, we may be required to record an impairment, which could negatively impact our financial results.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our services and adversely affect our business.

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases, foreign data privacy laws and regulations, such as the European Union’s Data Protection Directive, and the country-specific regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union’s e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services or restrict our ability to store and process data or, in some cases, impact our ability to offer our services in certain locations or our customers' ability to deploy our solutions globally.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on us. Our customers expect us to meet voluntary certification or other standards established by third parties, such as TRUSTe. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our services and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance.

Furthermore, concerns regarding data privacy may cause our customers’ customers to resist providing the data necessary to allow our customers to use our services effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services, and could limit adoption of our cloud-based solutions.

Industry-specific regulation and other requirements and standards are evolving and unfavorable industry-specific laws, regulations, interpretive positions or standards could harm our business.

Our customers and potential customers conduct business in a variety of industries, including financial services, the public sector, healthcare and telecommunications. Regulators in certain industries have adopted and may in the future adopt regulations or interpretive positions regarding the use of cloud computing and other outsourced services. The costs of compliance with, and other burdens imposed by, industry-specific laws, regulations and interpretive positions may limit our customers’ use and adoption of our services and reduce overall demand for our services. Compliance with these regulations may also require us to devote greater resources to support certain customers, which may increase costs and lengthen sales cycles. For example, some financial services regulators have imposed guidelines for use of cloud computing services that mandate specific controls or require financial services enterprises to obtain regulatory approval prior to outsourcing certain functions. If we are unable to comply with these guidelines or controls, or if our customers are unable to obtain regulatory approval to use our services where required, our business may be harmed. In addition, an inability to satisfy the standards of certain voluntary third-party certification bodies that our customers may expect, such as an attestation of compliance with the Payment Card Industry (PCI) Data Security Standards, may have an adverse impact on our business. Further, there are various statutes and regulations relevant to the direct email marketing and text-messaging industries, including the Telephone Consumer Protection Act (TCPA). The interpretation of many of these statutes and regulations is evolving in the courts and administrative agencies and an inability to comply with them may have an adverse impact on our business. If in the future we are unable to achieve or maintain these industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business.

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In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on 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 and the impact of foreign currency exchange rate fluctuations, 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 renewals of existing subscriptions fall short of our expectations. A portion of our expenses may also be fixed 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 historical 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 rely on third-party computer hardware, software and cloud computing platforms that could cause errors in, or failures of, our services and may be difficult to replace.

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

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:

- on premise offerings from 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;
- social media companies;
- traditional platform development environment companies;
- cloud computing development platform companies; and
- internally developed applications (by our potential customers' IT departments).

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 services are more effective than the products and services that our competitors offer, potential customers might select competitive products and services in lieu of purchasing our services. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

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Our quarterly results are likely to fluctuate and our stock price and the value of our common stock 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. As a result, our fiscal first quarter has become our largest collections and operating cash flow quarter.

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 attrition rates for our services;
- 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, size, invoice timing and new business linearity between quarters and within a quarter;
- changes in foreign currency exchange rates;
- 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 services;
- 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 services;
- new product and service introductions by our competitors;
- our success in selling our services to large enterprises;
- variations in the revenue mix of editions of our services;
- technical difficulties or interruptions in our services;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- changes in interest rates and our mix of investments, which would impact the return on our investments in cash and marketable securities;
- conditions, particularly sudden changes, in the financial markets, which have impacted and may continue to impact the value of and liquidity of our investment portfolio;
- income tax effects;
- our ability to realize benefits from strategic partnerships, acquisition or investments;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- general economic conditions, which may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their services, or delay a prospective customer's purchasing decision, reduce the value of new subscription contracts, or affect attrition rates;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- regulatory compliance costs;
- the timing of customer payments and payment defaults by customers;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements;
- equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes at the election of the note holders;

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- the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards on a straight-line basis 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 are 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 historical 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, if we fail to meet or exceed the expectations of securities analysts and investors, or 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 and 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.

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

We derive substantially all of our revenue from subscriptions to our CRM enterprise cloud computing application services, and we expect this will continue for the foreseeable future. The markets for our Analytics Cloud and Community Cloud 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 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 services 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 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, service or enhancement. Failure in this regard may significantly impair our revenue growth. In addition, because our services are 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 services 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 services to operate effectively with future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and harm our business.

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

We sell our services throughout the world and are subject to risks and challenges associated with international business. Historically, sales in Europe and Asia Pacific together have represented approximately 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 services, including translation into foreign languages and associated expenses;
- laws and business practices favoring local competitors;
- 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, which could result in decreased values of these balances;
- foreign currency fluctuations and controls;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data protection and industry-specific laws and regulations, including rules related to compliance by our third-party resellers;
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regional data privacy laws and other regulatory requirements that apply to outsourced service providers and 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;

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- 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 services more expensive for international customers, which could harm our business.
Because we recognize revenue from subscriptions for our services 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 services, and potential changes in our attrition rate, 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.

If our customers do not renew their subscriptions for our services or reduce the number of paying subscriptions at the time of renewal, our revenue will decline and our business will suffer. If we cannot accurately predict subscription renewals or upgrade rates, we may not meet our revenue targets which may adversely affect the market price of our common stock.
Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, which is typically 12 to 36 months, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or switch to lower cost offerings of our services. We cannot accurately predict attrition rates given our varied customer base of enterprise and small and medium size business customers and the number of multi-year subscription contracts. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers’ spending levels, decreases in the number of users at our customers, pricing changes and deteriorating general economic conditions.
Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our services 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 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 our business may suffer.

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 depends on the willingness of third-party developers to build applications that are complementary to our services. Without the development of these applications, both current and potential customers may not find our services 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, all of which could harm our business.

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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 and personnel, which has placed a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our internal infrastructure, data center capacity, research, customer support 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 services, to expand into new geographic areas, and to scale with our overall growth. If we fail to successfully scale our operations and increase productivity, we will be unable to execute our business plan.

We regularly upgrade 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 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.

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 may face greater costs, longer sales cycles, greater competition and less predictability in completing some of our sales. In this market segment, the customer's decision to use our services 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 services, 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.

Pricing and packaging strategies for enterprise and other customers for subscriptions to our existing and future service offerings may not be widely accepted by other new or existing customers. Our adoption of such new pricing and packaging strategies may harm our business.

For large enterprise customers, 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.

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.

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In addition, we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. For example, during fiscal 2015, we received a communication from a large technology company alleging that we infringed certain of its patents. While we continue to analyze this claim and no litigation has been filed to date, there can be no assurance that this claim will not lead to litigation in the future. 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. Further, 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.

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, pay monetary damages or enter into short- or long-term royalty or licensing agreements.

Any adverse determination related to intellectual property claims or other litigation could prevent us from offering our services 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 operations or cash flows or both of a particular quarter.

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 or the patent protection may not be obtained quickly enough to meet our business needs. 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, and we also may face proposals to change the scope of protection for some intellectual property rights in the U.S. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Also, our involvement in standard setting activity or the need to obtain licenses from others may require us to license our intellectual property. Accordingly, despite our efforts, we may be unable to prevent third parties from using our intellectual property.

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

Our 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 brand and our other brands are critical to expanding our base of customers, partners and employees. Our brand strength 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.

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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 services 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.

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. Any such future sales organization changes may result in a temporary reduction of productivity, which could negatively affect our rate of growth. 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.

Unanticipated changes in our effective tax rate and additional tax liabilities may impact our operating results

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits related to exercises and vesting of stock-based expense, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them and the applicability of withholding taxes.

We are subject to tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or change in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results and financial position.

Our tax provision could also be impacted by changes in federal, state or international tax laws including fundamental tax law changes applicable to corporate multinationals currently being considered by many countries including the United States as well as several European countries.

Additionally, we may be subject to additional tax liabilities due to changes in non-income taxes resulting from changes in federal, state or international tax laws, changes in taxing jurisdictions’ administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to the business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period.

Our debt service obligations and operating lease commitments may adversely affect our financial condition and cash flows from operations.

We have a high level of debt, including our 0.25% Senior Notes due April 1, 2018, borrowings under our revolving credit facility and capital lease arrangements. Additionally, we have significant contractual commitments in operating lease arrangements, which are not reflected on our consolidated balance sheet. In addition, we have a financing obligation for a leased facility of which we are deemed the owner for accounting purposes. Our maintenance of this indebtedness could:

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- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes;
- cause us to dedicate a substantial portion of our cash flows from operations towards debt service obligations and principal repayments;
- make us more vulnerable to downturns in our business, our industry or the economy in general; and
- due to limitations within the revolving credit facility covenants, restrict our ability to incur additional indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions, repurchase stock and enter into restrictive agreements, as defined in the credit agreement.

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulations. Further, our operations may not generate sufficient cash to enable us to service our debt. If we fail to make a payment on our debt, we could be in default on such debt. If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we would be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us.

A failure to comply with the covenants and other provisions of our outstanding debt could result in events of default under such instruments, which could permit acceleration of all of our notes and borrowings under our revolving credit facility. Any required repayment of our notes or revolving credit facility as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

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 cyclical downturns from time to time 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. 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 attrition 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, with the exception of the building that we own in San Francisco, 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 Our Convertible Senior Notes and Our Common Stock

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 notes and common stock has been and is likely to continue to be subject to wide fluctuations. Factors affecting the market price of our notes and 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;

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- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software, 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 significant portion of our outstanding common stock;
- 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
- issuance of debt or other convertible securities.

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our notes and common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our notes and 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.

We may issue additional shares of our common stock or instruments convertible into shares of our common stock, including in connection with the conversion of the notes, and thereby materially and adversely affect the market price of our common stock and the trading price of the notes.

We are not restricted from issuing additional shares of our common stock or other instruments convertible into, or exchangeable or exercisable for, shares of our common stock during the life of the notes. If we issue additional shares of our common stock or instruments convertible into shares of our common stock, it may materially and adversely affect the market price of our common stock and, in turn, the trading price of the notes. In addition, the conversion of some or all of the notes may dilute the ownership interests of existing holders of our common stock, and any sales in the public market of any shares of our common stock issuable upon such conversion of the notes could adversely affect the prevailing market price of our common stock. In addition, the potential conversion of the notes could depress the market price of our common stock.

We may not have the ability to raise the funds necessary to pay the amount of cash due upon conversion of the notes or the fundamental change purchase price due when a holder submits its notes for purchase upon the occurrence of a fundamental change.

Upon the occurrence of a fundamental change, holders of the notes may require us to purchase, for cash, all or a portion of their notes. In addition, if a holder converts its notes, we will generally pay such holder an amount of cash before delivering to such holder any shares of our common stock.

There can be no assurance that we will have sufficient financial resources, or will be able to arrange financing, to pay the fundamental change purchase price if holders submit their notes for purchase by us upon the occurrence of a fundamental change or to pay the amount of cash due if holders surrender their notes for conversion. In addition, agreements governing any future debt may restrict our ability to make each of the required cash payments even if we have sufficient funds to make them. Furthermore, our ability to purchase the notes or to pay cash upon the conversion of the notes may be limited by law or regulatory authority. If we fail to purchase the notes, to pay interest due on, or to pay the amount of cash due upon conversion, we will be in default under the indenture, which in turn may result in the acceleration of other indebtedness we may then have. If the repayment of the other indebtedness were to be accelerated, we may not have sufficient funds to repay that indebtedness and to purchase the notes or to pay the amount of cash due upon conversion. Our inability to pay for the notes that are tendered for purchase or upon conversion could result in note holders receiving substantially less than the principal amount of the notes, which could harm our reputation, financing opportunities and our business.

The fundamental change provisions may delay or prevent an otherwise beneficial takeover attempt of us.

The fundamental change purchase rights will allow holders of the notes to require us to purchase all or a portion of their notes upon the occurrence of a fundamental change. 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.

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The convertible note hedges and warrant transactions may affect the trading price of the notes and the market price of our common stock.

We entered into privately negotiated convertible note hedge transactions with certain hedge counterparties concurrently with the pricing of the notes. We also entered into privately negotiated warrant transactions with the hedge counterparties. Taken together, the convertible note hedge transactions and the warrant transactions are expected, but not guaranteed, to reduce the potential dilution with respect to our common stock upon conversion of the notes. If, however, the price of our common stock, as measured under the terms of the warrant transactions, exceeds the exercise price of the warrant transactions, the warrant transactions will have a dilutive effect on our earnings per share to the extent that the price of our common stock as measured under the warrant transactions exceeds the strike price of the warrant transactions.

The hedge counterparties and their respective affiliates periodically modify their hedge positions from time to time following the pricing of the notes (and are particularly likely to do so during any observation period relating to a conversion of the notes) by entering into or unwinding various over-the-counter derivative transactions with respect to our common stock, or by purchasing or selling shares of our common stock or the notes in privately negotiated transactions or open market transactions. The effect, if any, of these transactions and activities on the market price of our common stock or the trading price of the notes will depend in part on market conditions and cannot be ascertained at this time. Any of these activities, however, could adversely affect the market price of our common stock and the trading price of the notes.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the notes or our common stock. In addition, we do not make any representation that the counterparties to those transactions will engage in these transactions or activities or that these transactions and activities, once commenced, will not be discontinued without notice; the counterparties or their affiliates may choose to engage in, or discontinue engaging in, any of these transactions or activities with or without notice at any time, and their decisions will be in their sole discretion and not within our control.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

The hedge counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that these hedge counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the hedge counterparties will not be secured by any collateral. If one or more of the hedge counterparties to one or more of our convertible note hedge transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under those transactions. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in our stock price and the volatility of our stock. In addition, upon a default by one of the hedge counterparties, we may suffer adverse tax consequences and dilution with respect to our common stock. We can provide no assurances as to the financial stability or viability of any of the hedge counterparties.

Provisions in our amended and restated certificate of incorporation and bylaws and Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the market price of our common stock.

Our 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:

- 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 holders of 66 2/3 percent of our outstanding capital stock;
- 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”);
- prohibit the ability of our stockholders to call special meetings of stockholders;
-

prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

- provide that the board of directors is expressly authorized to make, alter or repeal our 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 the 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, 2015, our executive offices and principal offices for domestic marketing, sales, professional services and development consist of over 1.1 million square feet of leased space 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.

In addition, we have also entered into the following commitments for additional office space in the San Francisco Bay Area.

In December 2012, we entered into a lease agreement for approximately 445,000 rentable square feet of office space at 350 Mission Street in San Francisco, California. The space rented is for the total office space available in the building, which is in the process of being constructed. As a result of our involvement during the construction period, we are considered for accounting purposes to be the owner of the construction project. We do not currently occupy this property and we have excluded the square footage from the total leased space in the San Francisco Bay Area stated above.

In April 2014, we entered into an office lease agreement to lease approximately 714,000 rentable square feet of an office building located in San Francisco, California that is under construction. The lease payments associated with the lease will be approximately $560.0 million over the 15.5 year term of the lease, beginning in our first quarter of fiscal 2018. We do not currently occupy this property and we have excluded the square footage from the total leased space in the San Francisco Bay Area stated above.

In November 2014, the Company entered into an agreement to purchase real property of approximately 817,000 rentable square feet known as 50 Fremont Street, San Francisco, California. We currently occupy approximately 500,000 square feet of the total available space in 50 Fremont. The purchase closed in February 2015 (see Note 14 “Subsequent Event” in the Notes to the Consolidated Financial Statements for details).

We believe that our existing facilities and offices are adequate to meet our current requirements. 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 or may be 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, class actions, wage and hour, and other claims. We have been, and may in the future be, put on notice or sued by third parties for alleged infringement of their proprietary rights, including patent infringement.

During fiscal 2015, the Company received a communication from a large technology company alleging that the Company infringed certain of its patents. The Company continues to analyze this claim. No litigation has been filed to date. There can be no assurance that this claim will not lead to litigation in the future. The resolution of this claim is not expected to have a material adverse effect on the Company's financial condition, but it could be material to the net income or cash flows or both of a particular quarter.

We evaluate all claims and lawsuits with respect to their potential merits, our potential defenses and counterclaims, 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.

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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, 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.

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.

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ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position
Joe Allanson	51	Chief Accounting Officer and Corporate Controller
Marc Benioff	50	Chairman of the Board of Directors and Chief Executive Officer
Keith Block	53	President and Vice Chairman
Alexandre Dayon	46	President, Products
Parker Harris	48	Co-Founder
Mark Hawkins	55	Chief Financial Officer
Maria Martinez	57	President, Sales and Customer Success
Burke Norton	48	Chief Legal Officer

Joe Allanson has served as our Chief Accounting Officer and Corporate Controller since February 2014 and our Senior Vice President, Chief Accountant and Corporate Controller since July 2011. Prior to that, Mr. Allanson served as our Senior Vice President, Corporate Controller since July 2007, and served in various other management positions in finance since joining Salesforce in 2003. Prior to Salesforce, Mr. Allanson spent four years at Autodesk, Inc. and three years at Chiron Corporation in key corporate finance positions. Previously, he worked at Arthur Andersen LLP for 11 years in its Audit and Business Advisory Services group. Mr. Allanson graduated from Santa Clara University with a B.S. in Accounting.

Marc Benioff co-founded Salesforce in February 1999 and has served as our Chairman of the Board of Directors since inception. He has served as our Chief Executive Officer since 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. In the past five years, Mr. Benioff served as a member of the Board of Directors of Cisco Systems, Inc. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is also on the Board of Trustees.

Keith Block has served as our President, Vice Chairman and as a Director since joining Salesforce in June 2013. Prior to that, Mr. Block was employed at Oracle Corporation from 1986 to June 2012 where he held a number of positions, most recently Executive Vice President, North America. Mr. Block serves on the Board of Trustees at the Concord Museum, the Board of Trustees at Carnegie-Mellon University Heinz Graduate School and the President’s Advisory Council for Carnegie-Mellon University. Mr. Block received both a B.S. in Information Systems and an M.S. in Management & Policy Analysis from Carnegie-Mellon University.

Alexandre Dayon has served as our President, Products since March 2014. Prior to that, he was President, Applications and Platform from December 2012 to March 2014, Executive Vice President, Applications from September 2011 to December 2012, Executive Vice President, Product Management from February 2010 to December 2012, and Senior Vice President, Product Management from September 2008 to January 2010. Mr. Dayon joined Salesforce through the acquisition of InStranet, a leading knowledge-base company, where he was a founder and served as CEO. Prior to InStranet, Mr. Dayon was a founding member of Business Objects SA where he led the product group for more than 10 years. Mr. Dayon, who holds several patents, is focused on creating business value out of technology disruption. Mr. Dayon holds a master’s degree in electrical engineering from Ecole Supérieure d'Electricité (SUPELEC) in France.

Parker Harris co-founded Salesforce 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. Prior to Saleforce, Mr. Harris was a Vice President at Left Coast Software, a Java consulting firm he co-founded, from October 1996 to February 1999. Mr. Harris received a B.A. from Middlebury College.

Mark Hawkins has served as our Chief Financial Officer and Executive Vice President since August 2014. He served as Executive Vice President and Chief Financial Officer and principal financial officer for Autodesk, Inc., a design software and services company, from April 2009 to July 2014. From April 2006 to April 2009, Mr. Hawkins served as Senior Vice President, Finance and Information Technology, and Chief Financial Officer of Logitech International S.A. Previously, Mr. Hawkins held various finance and business-management roles with Dell Inc. and Hewlett-Packard Company. Mr. Hawkins served on the Board of Directors of BMC Software, Inc. from May 2010 through September 2013, at which time BMC was taken private. Mr. Hawkins holds a B.A. in Operations Management from Michigan State University and an M.B.A. in Finance from the University of Colorado. He also completed the Advanced Management Program at Harvard Business School.

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Maria Martinez has served as our President, Sales and Customer Success since February 2013. Prior to that, Ms. Martinez served as our Executive Vice President, Chief Growth Officer from February 2012 to February 2013 and our Executive Vice President, Customers for Life from February 2010 to February 2012. Prior to Salesforce, Ms. Martinez was at Microsoft Corporation and served as its Corporate Vice President of Worldwide Services. In addition to Microsoft, she was president and CEO of Embrace Networks, and also held senior leadership roles at Motorola, Inc. and AT&T Inc. / Bell Laboratories. Ms. Martinez received a B.S. in Electrical Engineering from the University of Puerto Rico and an M.S. in Computer Engineering from the Ohio State University.

Burke Norton has served as our Chief Legal Officer since October 2011. Prior to Salesforce, Mr. Norton was Executive Vice President, General Counsel and Secretary and a member of the office of the chairman at Expedia, Inc. from October 2006 to October 2011. Previously, Mr. Norton was a partner at the law firm of Wilson Sonsini Goodrich & Rosati P.C., where he practiced corporate and securities law, 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.

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PART II

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

Market Information for Common Stock

Our common stock is traded on the New York Stock Exchange under the symbol "CRM."

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

	High	Low
Fiscal year ending January 31, 2015		
First quarter	$67.00	$48.18
Second quarter	$59.49	$49.18
Third quarter	$64.60	$51.04
Fourth quarter	$64.74	$53.44
Fiscal year ending January 31, 2014		
First quarter (1)	$46.99	$39.75
Second quarter	$47.58	$36.09
Third quarter	$56.24	$42.11
Fourth quarter	$61.49	$50.12

(1) On March 20, 2013, our certificate of incorporation was amended to increase the number of authorized shares of common stock from 400.0 million to 1.6 billion in order to provide for a four-for-one stock split of the common stock effected in the form of a stock dividend. The record date for the stock split was April 3, 2013, and the additional shares were distributed on April 17, 2013. Each stockholder of record on the close of business on the record date received three additional shares of common stock for each share held. All per share data presented above reflects the impact of the stock split.

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 and if the board chooses to declare a cash dividend it will be in compliance with the consolidated leverage ratio covenant associated with our revolving credit facility.

Stockholders

As of January 31, 2015 there were 202 registered stockholders of record of our common stock, including The Depository Trust Company, which holds shares of Salesforce common stock on behalf of an indeterminate number of beneficial owners.

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."

Outstanding Convertible Senior Notes and Warrants

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the "0.25% Senior Notes") due April 1, 2018 and we issued 17.3 million warrants to purchase our common stock. See Note 5 "Debt" in the Notes to the Consolidated Financial Statements for more information.

Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended.

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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 each of the last five fiscal years ended January 31, 2015, 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.

	1/31/2010	1/31/2011	1/31/2012	1/31/2013	1/31/2014	1/31/2015
salesforce.com	100.00	203.20	183.80	270.80	380.90	355.30
S&P 500 Index	100.00	119.80	122.20	139.50	166.00	185.80
Nasdaq Computer & Data Processing Index	100.00	132.30	140.30	146.70	187.90	222.30

Recent Sales of Unregistered Securities
As previously disclosed on a Form 8-K filed on December 19, 2014, on December 17, 2014 the Company entered into agreements with each of Goldman, Sachs & Co., Deutsche Bank AG and Bank of America, N.A. (collectively, the “Counterparties”) to amend and settle early those certain warrant transactions that the Company entered into with the Counterparties on January 12, 2010 and January 15, 2010, whereby the Company sold to the Counterparties warrants to acquire, in the aggregate, up to approximately 26.9 million shares of the Company’s common stock at a strike price of $29.88 per share, subject to anti-dilution adjustments. The final settlement transaction with the Counterparties closed on January 30, 2015 and, in the aggregate, the Company issued 13.3 million shares to the Counterparties. This issuance of shares was made in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended.

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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 2015, 2014 and 2013, and the selected consolidated balance sheet data as of January 31, 2015 and 2014 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 2012 and 2011 and the consolidated balance sheet data as of January 31, 2013, 2012 and 2011 are derived from audited consolidated financial statements which are not included in this Form 10-K.

	Fiscal Year Ended January 31,				
(in thousands, except per share data)	2015	2014	2013	2012	2011
Consolidated Statement of Operations					
Revenues:					
Subscription and support	$5,013,764	$3,824,542	$2,868,808	$2,126,234	$1,551,145
Professional services and other	359,822	246,461	181,387	140,305	105,994
Total revenues	5,373,586	4,071,003	3,050,195	2,266,539	1,657,139
Cost of revenues (1)(2):					
Subscription and support	924,638	711,880	494,187	360,758	208,243
Professional services and other	364,632	256,548	189,392	128,128	115,570
Total cost of revenues	1,289,270	968,428	683,579	488,886	323,813
Gross profit	4,084,316	3,102,575	2,366,616	1,777,653	1,333,326
Operating expenses (1)(2):					
Research and development	792,917	623,798	429,479	295,347	187,887
Marketing and sales	2,757,096	2,168,132	1,614,026	1,169,610	792,029
General and administrative	679,936	596,719	433,821	347,781	255,913
Total operating expenses	4,229,949	3,388,649	2,477,326	1,812,738	1,235,829
Income (loss) from operations	(145,633)	(286,074)	(110,710)	(35,085)	97,497
Investment income	10,038	10,218	19,562	23,268	37,735
Interest expense	(73,237)	(77,211)	(30,948)	(17,045)	(24,909)
Gain on sales of land and building improvements	15,625	0	0	0	0
Other expense	(19,878)	(4,868)	(5,698)	(4,455)	(6,025)
Income (loss) before benefit from (provision for) income taxes and noncontrolling interest	(213,085)	(357,935)	(127,794)	(33,317)	104,298
Benefit from (provision for) income taxes	(49,603)	125,760	(142,651)	21,745	(34,601)
Consolidated net income (loss)	(262,688)	(232,175)	(270,445)	(11,572)	69,697
Less: net income attributable to noncontrolling interest	0	0	0	0	(5,223)
Net income (loss) attributable to salesforce.com	$(262,688)	$(232,175)	$(270,445)	$(11,572)	$64,474
Net earnings per share-basic and diluted (3):					
Basic net income (loss) per share attributable to salesforce.com common shareholders	$(0.42)	$(0.39)	$(0.48)	$(0.02)	$0.12
Diluted net income (loss) per share attributable to salesforce.com common	$(0.42)	$(0.39)	$(0.48)	$(0.02)	$0.12

shareholders					
Shares used in computing basic net income (loss) per share	624,148	597,613	564,896	541,208	520,888
Shares used in computing diluted net income (loss) per share	624,148	597,613	564,896	541,208	546,392

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	Fiscal Year Ended January 31,				
(in thousands)	2015	2014	2013	2012	2011
(1) Amounts include amortization of purchased intangibles from business combinations, as follows:					
Cost of revenues	$90,300	$109,356	$77,249	$60,069	$15,459
Marketing and sales	64,673	37,179	10,922	7,250	4,209
(2) Amounts include stock-based expenses, as follows:					
Cost of revenues	$53,812	$45,608	$33,757	$17,451	$12,158
Research and development	121,193	107,420	76,333	45,894	18,897
Marketing and sales	286,410	258,571	199,284	115,730	56,451
General and administrative	103,350	91,681	69,976	50,183	32,923

(3) Fiscal 2013, 2012 and 2011 have been adjusted to reflect the four-for-one stock split effected through a stock dividend which occurred in April 2013.

	As of January 31,				
(in thousands)	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities (4)	$1,890,284	$1,321,017	$1,758,285	$1,447,174	$1,407,557
(Negative) working capital	(840,031)	(1,299,936)	(901,744)	(627,809)	(201,542)
Total assets	10,692,982	9,152,930	5,528,956	4,164,154	3,091,165
Long-term obligations excluding deferred revenue and noncontrolling interest (5)	2,263,015	2,059,117	175,732	109,349	516,506
Retained earnings (deficit)	(605,845)	(343,157)	(110,982)	159,463	171,035
Total stockholders’ equity controlling interest	3,975,183	3,038,510	2,317,633	1,587,360	1,276,491

(4) Excludes the restricted cash balance of $115.0 million as of January 31, 2015.

(5) Long-term obligations primarily excludes deferred revenue and noncontrolling interest includes the 0.75% convertible senior notes issued in January 2010, the 0.25% convertible senior notes issued in March 2013, the term loan entered into in July 2013, and the revolving credit facility entered into in October 2014. During fiscal 2015, the term loan was paid off and was no longer outstanding as of year end. At January 31, 2015, the 0.75% notes had matured and were no longer outstanding. At January 31, 2014, 2013 and 2012, the 0.75% 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 leading provider of enterprise cloud computing solutions, with a focus on customer relationship management, or CRM. We introduced our first CRM solution in February 2000 and we have since expanded our offerings with new editions, solutions, enhanced features, platform capabilities and a new analytics solution 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 in entirely new ways. With our six core cloud service offerings—Sales Cloud, Service Cloud, Marketing Cloud, Communities Cloud, Analytics Cloud and the Salesforce1 Platform—customers have the tools they need to build a next generation customer success platform. Key elements of our strategy include:

- strengthening our market-leading solutions;
- extending distribution into new and high-growth categories;
- expanding strategic relationships with our existing customers;
- pursuing new customers;
- reducing attrition;
- building our business in top software markets globally, which includes building partnerships that help add customers; 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 attrition 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 or arrangements such as an Enterprise License Agreement, provide high quality technical support to our customers, 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, specifically in our top markets, continuing to develop our brands, the addition of distribution channels, the upgrade of our service offerings, the development of new services such as the announcement of our Analytics Cloud and Community Cloud, the integration of acquired technologies, the expansion of our Marketing Cloud and Salesforce1 Platform core service offerings, and the additions to our global infrastructure to support our growth.

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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 future periods 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 U.S. generally accepted accounting principles ("GAAP") basis. As we continue with our growth plan, we may continue to have net losses on a GAAP basis. We remained focused on improving operating margins in fiscal 2015 and expect to remain similarly focused in fiscal 2016. Our operating loss for fiscal 2015 was $145.6 million compared to $286.1 million during the same period a year ago.

Our typical subscription contract term is 12 to 36 months, although terms range from one to 60 months, so during any fiscal reporting period only a subset of active subscription contracts is eligible for renewal. We calculate our attrition rate as of the end of each month. Our current attrition rate calculation does not include the Marketing Cloud service offerings. Our attrition rate was between nine and ten percent during the fiscal year ended January 31, 2015, which is consistent with the attrition rate as of January 31, 2014. We expect our attrition rate to remain in this range as we continue to expand our enterprise business and invest in customer success and related programs.

We expect marketing and sales costs, which were 51 percent of our total revenues for the fiscal year ended January 31, 2015 and 53 percent for the same period a year ago, to continue to represent a substantial portion of total revenues in the future as we seek to grow our customer base, sell more products to existing customers, and build greater brand awareness.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2015, for example, refer to the fiscal year ending January 31, 2015.

Operating Segments

We operate as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who in our case is the chief executive officer, in deciding how to allocate resources and assess performance. Over the past few years, we have completed several acquisitions. These acquisitions have allowed us to expand our offerings, presence and reach in various market segments of the enterprise cloud computing market. While we have offerings in multiple enterprise cloud computing market segments, our business operates in one operating segment because all of our offerings operate on a single platform and are deployed in an identical way, and our chief operating decision maker evaluates our financial information and resources and assesses the performance of these resources on a consolidated basis. Since we operate as one operating segment, all required financial segment information can be found in the consolidated financial statements.

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 paying for 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 93 percent percent of our total revenues for fiscal 2015. Subscription revenues are driven primarily by the number of paying subscribers, varying service types, the price of our service and renewals. 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 2015, 2014 or 2013.

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 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.

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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 Estimates—Revenue Recognition" below.

Revenue by Cloud Service Offering

We are providing the information below on a supplemental basis to give additional insight into the revenue performance of our individual core service offerings.

Subscription and support revenues consisted of the following by core service offering (in millions):

	Fiscal Year Ended January 31, 2015
Sales Cloud	$2,443.0
Service Cloud	1,320.2
Salesforce1 Platform and Other	745.3
Marketing Cloud	505.3
Total	$5,013.8

Subscription and support revenues from Analytics Cloud and Communities Cloud were not significant for fiscal 2015. Analytics Cloud revenue is included with Salesforce1 Platform and Other in the table above. Communities Cloud revenue is included in either Sales Cloud, Service Cloud or Salesforce1 Platform and Other revenue depending on the primary service offering purchased.

In situations where a customer purchases multiple cloud offerings, such as through an Enterprise License Agreement, we allocate the contract value to each core service offering based on the customer's estimated product demand plan and the service that was provided at the inception of the contract. We do not update these allocations based on actual product usage during the term of the contract. We have allocated approximately 10 percent of our total subscription and support revenues for fiscal 2015, based on customers' estimated product demand plans and these allocated amounts are included in the table above.

Additionally, some of our core service offerings have similar features and functions. For example, customers may use the Sales Cloud, the Service Cloud or our Salesforce1 Platform to record account and contact information, which are similar features across these core service offerings. Depending on a customer's actual and projected business requirements, more than one core service offering may satisfy the customer's current and future needs. We record revenue based on the individual products ordered by a customer, and not according to the customer's business requirements and usage. In addition, as we introduce new features and functions within each offering, and refine our allocation methodology for changes in our business, we do not expect it to be practical to adjust historical revenue results by core service offering for comparability. Accordingly, comparisons of revenue performance by core service offering over time may not be meaningful.

Our Sales Cloud service offering is our most widely distributed service offering and has historically been the largest contributor of subscription and support revenues. As a result, Sales Cloud has the most international exposure and foreign exchange rate exposure, relative to the other cloud service offerings. Conversely, revenue for Marketing Cloud is primarily derived from the Americas, with little impact from foreign exchange rate movement. We estimate that for fiscal 2016, subscription and support revenues from the Sales Cloud service offering will continue to be the largest contributor of subscription and support revenue, and foreign currency will continue to have a more pronounced impact on Sales Cloud subscription and support revenues than revenues from our other cloud service offerings.

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Seasonal Nature of Deferred Revenue, Accounts Receivable and Operating Cash Flow

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 annual cycles. Approximately 80 percent of all subscription and support invoices were issued with annual terms during fiscal 2015 in comparison to nearly 74 percent during fiscal 2014. 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 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, because of this billing activity, our first quarter is historically our largest collections and operating cash flow quarter. The sequential quarterly changes in accounts receivable, related deferred revenue and operating cash flow 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, except unbilled deferred revenue):

	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015
Fiscal 2015				
Accounts receivable, net	$684,155	$834,323	$794,590	$1,905,506
Deferred revenue, current and noncurrent	2,324,615	2,352,904	2,223,977	3,321,449
Operating cash flow (1)	473,087	245,893	122,511	332,223
Unbilled deferred revenue, a non-GAAP measure	4.8 bn	5.0 bn	5.4 bn	5.7 bn

	April 30, 2013	July 31, 2013	October 31, 2013	January 31, 2014
Fiscal 2014				
Accounts receivable, net	$502,609	$599,543	$604,045	$1,360,837
Deferred revenue, current and noncurrent	1,733,160	1,789,648	1,734,619	2,522,115
Operating cash flow (1)	283,189	183,183	137,859	271,238
Unbilled deferred revenue, a non-GAAP measure	3.6 bn	3.8 bn	4.2 bn	4.5 bn

	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
Operating cash flow (1)	213,212	136,197	105,915	281,573
Unbilled deferred revenue, a non-GAAP measure	2.7 bn	2.8 bn	3.0 bn	3.5 bn

(1) Operating cash flow represents net cash provided by operating activities for the three months ended in the periods stated above.

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Unbilled Deferred Revenue, a Non-GAAP Measure

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 $5.7 billion as of January 31, 2015 and approximately $4.5 billion as of January 31, 2014. Our typical contract length is between 12 and 36 months. We expect that the amount of unbilled deferred revenue will change from quarter to quarter for several reasons, including the specific timing, duration and size 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 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. Unbilled deferred revenue does not include minimum revenue commitments from indirect sales channels, as we recognize revenue, deferred revenue, and any unbilled deferred revenue upon sell-through to an end user customer.

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, amortization expense associated with capitalized software related to our services and acquired developed technologies and certain fees paid to various third parties for the use of their technology, services and data. 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 have invested in additional database software and we plan to open additional data centers and expand our current data center capacity in the future. As we acquire new businesses and technologies, the amortization expense associated with this activity will be included in cost of revenues. Additionally, as we enter into new contracts with third parties for the use of their technology, services or data, or as our sales volume grows, the fees paid to use such technology or services may increase. 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.

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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 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 acquire more companies, as we hire more employees and seek to retain existing employees.

During fiscal 2015, we recognized stock-based expense of $564.8 million. As of January 31, 2015, the aggregate stock compensation remaining to be amortized to costs and expenses over a weighted-average period of 2.0 years was $1.4 billion. We expect this stock compensation balance to be amortized as follows: $556.6 million during fiscal 2016; $411.6 million during fiscal 2017; $288.9 million during fiscal 2018; $127.4 million during fiscal 2019 and $0.5 million during fiscal 2020. The expected amortization reflects only outstanding stock awards as of January 31, 2015 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 "Summary of Business and Significant Accounting Policies" 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 multiple subscriptions, premium support, and professional services. 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 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.

Multiple deliverables included in an arrangement are separated into different units of accounting and 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 installments. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, size and new business linearity within the quarter.

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 the fiscal 2015, we deferred $320.9 million of commission expenditures and we amortized $257.6 million to sales expense. During the same period a year ago, we deferred $265.1 million of commission expenditures and we amortized $194.6 million to sales expense. Deferred commissions on our consolidated balance sheets totaled $388.2 million at January 31, 2015 and $324.9 million at January 31, 2014.

Capitalized Internal-Use Software Costs. We are required to follow the guidance of Accounting Standards Codification 350 ("ASC 350"), Intangibles- Goodwill and Other in accounting for the cost of computer software developed for internal-use and the accounting for web-based product development costs. ASC 350 requires companies to capitalize qualifying computer software costs, which are incurred during the application development stage, and amortize these costs on a straight-line basis over the estimated useful life of the respective asset. We deliver our enterprise cloud computing solutions as a service via all the major Internet browsers and on leading major mobile device operating systems. As a result of this software as a service delivery model, we believe we have larger capitalized costs as compared to traditional enterprise software companies as they are required to use a different accounting standard.

Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life. We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

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 attrition 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.

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;

- 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;
- 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 ESPP share or stock purchase right 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. We evaluate the forfeiture rates at least annually, or when events or circumstances indicate a change may be needed. This may cause a fluctuation in our stock-based expense in the period of change. 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;
- 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; and
- The probability of performance conditions, if any, that affect the vesting of certain awards being achieved. Expense is only recognized for those shares expected to vest.

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. At each of the interim financial reporting periods, we compute our tax provision by applying an estimated annual effective tax rate to year to date ordinary income and adjust the provision for discrete tax items recorded in the same period. The estimated annual effective tax rate at each interim period represents the best estimate based on evaluations of possible future transactions and may be subject to subsequent refinement or revision.

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.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. We regularly review the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. Our judgment regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute the business plans and/or tax planning strategies. Should there be a change in the ability to recover deferred tax assets, our income tax provision would increase or decrease in the period in which the assessment is changed.

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. In determining the estimated fair value of our strategic investments in privately-held companies, we utilize the most recent data available to us. Valuations of privately-held companies are inherently complex due to the lack of readily available data.

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Results of Operations

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

	Fiscal Year Ended January 31,		
	2015	2014	2013
Revenues:			
Subscription and support	$5,013,764	$3,824,542	$2,868,808
Professional services and other	359,822	246,461	181,387
Total revenues	5,373,586	4,071,003	3,050,195
Cost of revenues (1)(2):			
Subscription and support	924,638	711,880	494,187
Professional services and other	364,632	256,548	189,392
Total cost of revenues	1,289,270	968,428	683,579
Gross profit	4,084,316	3,102,575	2,366,616
Operating expenses (1)(2):			
Research and development	792,917	623,798	429,479
Marketing and sales	2,757,096	2,168,132	1,614,026
General and administrative	679,936	596,719	433,821
Total operating expenses	4,229,949	3,388,649	2,477,326
Loss from operations	(145,633)	(286,074)	(110,710)
Investment income	10,038	10,218	19,562
Interest expense	(73,237)	(77,211)	(30,948)
Gain on sales of land and building improvements	15,625	0	0
Other expense	(19,878)	(4,868)	(5,698)
Loss before benefit from (provision for) income taxes	(213,085)	(357,935)	(127,794)
Benefit from (provision for) income taxes	(49,603)	125,760	(142,651)
Net loss	$(262,688)	$(232,175)	$(270,445)

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

	Fiscal Year Ended January 31,		
	2015	2014	2013
Cost of revenues	$90,300	$109,356	$77,249
Marketing and sales	64,673	37,179	10,922

(2) Cost of revenues and operating expenses include the following amounts related to stock-based expenses (in thousands):

	Fiscal Year Ended January 31,		
	2015	2014	2013
Cost of revenues	$53,812	$45,608	$33,757
Research and development	121,193	107,420	76,333
Marketing and sales	286,410	258,571	199,284
General and administrative	103,350	91,681	69,976

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Revenues by geography were as follows (in thousands):

	Fiscal Year Ended January 31,		
	2015	2014	2013
Americas	$3,868,329	$2,899,837	$2,123,736
Europe	984,919	741,220	525,304
Asia Pacific	520,338	429,946	401,155
	$5,373,586	$4,071,003	$3,050,195

Americas revenue attributed to the United States was approximately 94 percent, 96 percent and 94 percent for fiscal 2015, 2014 and 2013, respectively. No other country represented more than ten percent of total revenue during fiscal 2015, 2014 or 2013.

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,		
	2015	2014	2013
Revenues:			
Subscription and support	93 %	94 %	94 %
Professional services and other	7	6	6
Total revenues	100	100	100
Cost of revenues:			
Subscription and support	17	18	16
Professional services and other	7	6	6
Total cost of revenues	24	24	22
Gross profit	76	76	78
Operating expenses:			
Research and development	15	15	14
Marketing and sales	51	53	53
General and administrative	13	15	15
Total operating expenses	79	83	82
Loss from operations	(3)	(7)	(4)
Investment income	0	0	1
Interest expense	(1)	(2)	(1)
Gain on sales of land and building improvements	0	0	0
Other expense	0	0	0
Loss before benefit from (provision for) income taxes	(4)	(9)	(4)
Benefit from (provision for) income taxes	(1)	3	(5)
Net loss	(5)%	(6)%	(9)%

	Fiscal Year Ended January 31,		
	2015	2014	2013
Amortization of purchased intangibles:			
Cost of revenues	2 %	3 %	3 %
Marketing and sales	1	1	0

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	Fiscal Year Ended January 31,		
	2015	2014	2013
Stock-based expenses:			
Cost of revenues	1 %	1 %	1 %
Research and development	2	3	3
Marketing and sales	5	6	7
General and administrative	2	2	2

	Fiscal Year Ended January 31,		
	2015	2014	2013
Revenues by geography:			
Americas	72 %	71 %	70 %
Europe	18	18	17
Asia Pacific	10	11	13
	100 %	100 %	100 %

Revenue constant currency growth rates (as compared to the comparable prior periods)	Fiscal Year Ended January 31, 2015 compared to Fiscal Year Ended January 31, 2014	Fiscal Year Ended January 31, 2014 compared to Fiscal Year Ended January 31, 2013	Fiscal Year Ended January 31, 2013 compared to Fiscal Year Ended January 31, 2012
Americas	33%	37%	38%
Europe	34%	36%	38%
Asia Pacific	26%	19%	27%
Total growth	33%	34%	37%

We present constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the year being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period.

	As of January 31,	
	2015	2014
Balance Sheet Data (in thousands):		
Cash, cash equivalents and marketable securities, excluding restricted cash	$1,890,284	$1,321,017
Deferred revenue, current and noncurrent	3,321,449	2,522,115
Principal due on convertible senior notes, term loan, and revolving credit facility	1,450,000	2,003,864

Unbilled deferred revenue was approximately $5.7 billion as of January 31, 2015 and $4.5 billion as of January 31, 2014. 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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Fiscal Years Ended January 31, 2015 and 2014

Revenues.

	Fiscal Year Ended January 31,		Variance	
(in thousands)	2015	2014	Dollars	Percent
Subscription and support	$5,013,764	$3,824,542	$1,189,222	31%
Professional services and other	359,822	246,461	113,361	46%
Total revenues	$5,373,586	$4,071,003	$1,302,583	32%

Total revenues were $5.4 billion for fiscal 2015, compared to $4.1 billion during the same period a year ago, an increase of $1.3 billion, or 32 percent. On a constant currency basis, total revenues grew 33 percent. Subscription and support revenues were $5.0 billion, or 93 percent of total revenues, for fiscal 2015, compared to $3.8 billion, or 94 percent of total revenues, during the same period a year ago, an increase of $1.2 billion, or 31 percent. The increase in subscription and support revenues was primarily attributable to the impact of, in fiscal 2015, including ExactTarget revenue for the full fiscal year, as compared to fiscal 2014, which only included ExactTarget revenue as of its acquisition date in July 2013. Additionally, volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers contributed to the increase in subscription and support revenues. Our attrition rate, which is consistent with the prior year, also played a role in the increase in subscription and support revenues. We continue to invest in a variety of customer programs and initiatives, which, along with increasing enterprise adoption, have helped maintain our attrition rate. The net price per user per month for our three primary offerings, Professional Edition, Enterprise Edition and Unlimited Edition, varies from period to period, but has remained within a consistent range over the past eight quarters. Changes in the net price per user per month has not been a significant driver of revenue growth for the periods presented. Professional services and other revenues were $359.8 million, or seven percent of total revenues, for fiscal 2015, compared to $246.5 million, or six percent of total revenues, for the same period a year ago, an increase of $113.4 million, or 46 percent. The increase in professional services and other revenues was primarily attributable to the impact of, in fiscal 2015, including ExactTarget revenue for the full fiscal year, as compared to fiscal 2014, which only included ExactTarget revenue as of its acquisition date in July 2013.

Revenues in Europe and Asia Pacific accounted for $1,505.3 million, or 28 percent of total revenues, for fiscal 2015, compared to $1,171.2 million, or 29 percent of total revenues, during the same period a year ago, an increase of $334.1 million, or 29 percent. The increase in revenues on a total dollar basis outside of the Americas was the result of the increasing acceptance of our service, our focus on marketing our services internationally, additional resources and consistent attrition rates as a result of the reasons stated above. Revenues outside of the Americas increased on a total dollar basis in fiscal 2015 despite an overall strengthening of the U.S. dollar, which reduced aggregate international revenues by $31.5 million compared to the same period a year ago. We expect revenues outside of the Americas to continue to be negatively impacted in fiscal 2016 by the strengthening of the U.S. dollar relative to the Euro, Japanese yen, Australian dollar and British pound.

Cost of Revenues.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Subscription and support	$924,638	$711,880	$212,758
Professional services and other	364,632	256,548	108,084
Total cost of revenues	$1,289,270	$968,428	$320,842
Percent of total revenues	24 %	24 %	

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Cost of revenues was $1,289.3 million, or 24 percent of total revenues, for fiscal 2015, compared to $968.4 million, or 24 percent of total revenues, during the same period a year ago, an increase of $320.8 million. The increase in absolute dollars was primarily due to an increase of $122.3 million in employee-related costs, an increase of $8.2 million in stock-based expenses, an increase of $100.6 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of $29.9 million in professional and outside services, an increase of $18.8 million in allocated overhead and an increase of $44.7 million in depreciation of property and equipment, offset by a decrease of $19.1 million in amortization of purchased intangibles. We have increased our headcount by 30 percent since January 31, 2014 to meet the higher demand for services from our customers. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity. Additionally, the amortization of purchased intangible assets may increase as we acquire additional businesses and technologies. We also plan to add additional employees in our professional services group to facilitate the adoption of our services. The timing of these expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues in future periods.

The cost of professional services and other revenues exceeded the related revenue during fiscal 2015 by $4.8 million as compared to $10.1 million during the same period a year ago, primarily due to the impact of including ExactTarget revenue for the full fiscal 2015, as described above, offset by an increase in the cost related to professional services headcount. We expect the cost of professional services to continue to exceed revenue from professional services in future fiscal years. We believe that this investment in professional services facilitates the adoption of our service offerings.

Research and Development.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Research and development	$792,917	$623,798	$169,119
Percent of total revenues	15 %	15 %	

Research and development expenses were $792.9 million, or 15 percent of total revenues, for fiscal 2015, compared to $623.8 million, or 15 percent of total revenues, during the same period a year ago, an increase of $169.1 million. The increase in absolute dollars was primarily due to an increase of $132.3 million in employee-related costs, an increase of of $13.8 million in stock-based expense, an increase of $14.8 million in development and test data center expense, and an increase in allocated overhead. We increased our research and development headcount by 25 percent since January 31, 2014 in order to improve and extend our service offerings and develop new technologies. We expect that research and development expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to add employees and invest in technology to support the development of new, and improve existing, technologies and the integration of acquired technologies.

Marketing and Sales.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Marketing and sales	$2,757,096	$2,168,132	$588,964
Percent of total revenues	51 %	53 %	

Marketing and sales expenses were $2.8 billion, or 51 percent of total revenues, for fiscal 2015, compared to $2.2 billion, or 53 percent of total revenues, during the same period a year ago, an increase of $589.0 million. The increase in absolute dollars was primarily due to increases of $439.0 million in employee-related costs, including amortization of deferred commissions, $56.4 million in advertising expenses and event costs, $27.8 million stock-based expense, $5.2 million in professional and outside services and $28.0 million in allocated overhead. Our marketing and sales headcount increased by 22 percent since January 31, 2014. The increase in headcount was primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and Administrative.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars

General and administrative	$679,936	$596,719	$83,217
Percent of total revenues	13 %	15 %	

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General and administrative expenses were $679.9 million, or 13 percent of total revenues, for fiscal 2015, compared to $596.7 million, or 15 percent of total revenues, during the same period a year ago, a increase of $83.2 million. The increase was primarily due to an increase of $53.1 million in employee-related costs, an increase of $18.9 million in equipment costs and an increase of $11.7 million in stock-based expense, offset by a decrease of $3.0 million in professional and outside services. Our general and administrative headcount increased by 9 percent since January 31, 2014 as we added personnel to support our growth.

Loss from operations.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Loss from operations	$(145,633)	$(286,074)	$140,441
Percent of total revenues	(3)%	(7)%	

Loss from operations for fiscal 2015 was $145.6 million and included $564.8 million of stock-based expenses and $155.0 million of amortization of purchased intangibles. During the same period a year ago, loss from operations was $286.1 million and included $503.3 million of stock-based expenses and $146.5 million of amortization of purchased intangibles.

Investment income.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Investment income	$10,038	$10,218	$(180)

Investment income consists of income on our cash and marketable securities balances. Investment income was $10.0 million for fiscal 2015 and was $10.2 million during the same period a year ago.

Interest expense.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Interest expense	$(73,237)	$(77,211)	$3,974
Percent of total revenues	(1)%	(2)%	

Interest expense consists of interest on our convertible senior notes, capital leases, term loan and revolving credit facility. Interest expense, net of interest costs capitalized, was $73.2 million for fiscal 2015 and was $77.2 million during the same period a year ago. The decrease was primarily due to the reduced principal balance on our 0.75% convertible senior notes as a result of early note conversions during fiscal 2015. These notes fully matured on January 15, 2015.

Gain on sales of land and building improvements

During fiscal 2015, we sold two separate portions of our undeveloped real estate, including a portion of our perpetual parking rights, in San Francisco, California. We recognized a gain of $15.6 million during fiscal 2015, net of closing costs, as a result of this activity.

Other expense.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Other expense	$(19,878)	$(4,868)	$(15,010)

Other expense primarily consists of non-operating costs such as foreign currency transaction gains and losses, costs associated with real estate transactions and losses on derecognition of debt. The increase in other expense for fiscal 2015 was primarily due to losses totaling $10.3 million related to the extinguishment of the 0.75% Senior Notes converted by noteholders.

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Benefit from (provision for) income taxes.

	Fiscal Year Ended January 31,		Variance
(in thousands)	2015	2014	Dollars
Benefit from (provision for) income taxes	$(49,603)	$125,760	$(175,363)
Effective tax rate	(23)%	35%	

We reported a tax provision of $49.6 million on a pretax loss of $213.1 million, which resulted in a negative effective tax rate of 23 percent for the fiscal 2015. We had a tax provision primarily due to income taxes in profitable jurisdictions outside the U.S., which was partially offset by tax benefits from current year losses incurred by ExactTarget in certain state jurisdictions.

We recorded a tax benefit of $125.8 million with a pretax loss of $357.9 million, which resulted in an effective tax rate of 35 percent for fiscal 2014. Due to the ExactTarget acquisition, a deferred tax liability was established for the book-tax basis difference related to purchased intangibles. The net deferred tax liability from acquisitions provided an additional source of income to support the realizability of our pre-existing deferred tax assets. As a result, we released a portion of the valuation allowance that was established in fiscal 2013 and recorded a tax benefit of $143.1 million for fiscal 2014.

We had a valuation allowance against our U.S. deferred tax assets as we considered our cumulative loss in recent years as a significant piece of negative evidence. We regularly assess the need for a valuation allowance against our deferred tax assets by considering both positive and negative evidence related to the likelihood of the realization of the deferred tax assets to determine if it is more-likely-than-not that some or all of the deferred tax assets will be realized. Due to the valuation allowance, the effective tax rate could be volatile and is therefore difficult to forecast in future periods.

Fiscal Years Ended January 31, 2014 and 2013

Revenues.

	Fiscal Year Ended January 31,		Variance	
(in thousands)	2014	2013	Dollars	Percent
Subscription and support	$3,824,542	$2,868,808	$955,734	33%
Professional services and other	246,461	181,387	65,074	36%
Total revenues	$4,071,003	$3,050,195	$1,020,808	33%

Total revenues were $4.1 billion for fiscal 2014, compared to $3.1 billion during fiscal 2013, an increase of $1.0 billion, or 33 percent. Subscription and support revenues were $3.8 billion, or 94 percent of total revenues, for fiscal 2014, compared to $2.9 billion, or 94 percent of total revenues, during fiscal 2013, an increase of $955.7 million, or 33 percent. The increase in subscription and support revenues was due almost entirely to volume-driven increases from new customers, upgrades and additional subscriptions from existing customers and a decline in attrition rates as compared to fiscal 2013. We have continued to invest in a variety of customer programs and initiatives, which, along with longer contract durations and increasing enterprise adoption, have helped reduce our attrition rates. The net price per user per month for our three primary offerings, Professional Edition, Enterprise Edition and Unlimited Edition, varies from period to period, but has remained within a consistent range. The net price per user per month has not been a significant driver of revenue growth for the periods presented. Professional services and other revenues were $246.5 million, or six percent of total revenues, for fiscal 2014, compared to $181.4 million, or six percent of total revenues, for fiscal 2013, an increase of $65.1 million, or 36 percent. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of customers.

Revenues in Europe and Asia Pacific accounted for $1,171.2 million, or 29 percent of total revenues, for fiscal 2014, compared to $926.5 million, or 30 percent of total revenues, during fiscal 2013, an increase of $244.7 million, or 26 percent. The increase in revenues outside of the Americas on a total dollar basis was the result of the increasing acceptance of our service, our focus on marketing our service internationally and reduced attrition rates. Revenues outside of the Americas increased on a total dollar basis in fiscal 2014 despite an overall strengthening of the U.S. dollar, which reduced aggregate international revenues by $24.4 million compared to fiscal 2013.

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Cost of Revenues.

	Fiscal Year Ended January 31,				Variance
(in thousands)	2014		2013		Dollars
Subscription and support	$711,880		$494,187		$217,693
Professional services and other	256,548		189,392		67,156
Total cost of revenues	$968,428		$683,579		$284,849
Percent of total revenues	24	%	22	%	

Cost of revenues was $968.4 million, or 24 percent of total revenues, for fiscal 2014, compared to $683.6 million, or 22 percent of total revenues, during fiscal 2013, an increase of $284.8 million. The increase in absolute dollars was primarily due to an increase of $102.8 million in employee-related costs, an increase of $48.9 million in service delivery costs, primarily due to our efforts in increasing data center capacity, an increase of $80.4 million in depreciation and amortization expenses, $32.1 million of which related to the amortization of acquired developed technology, an increase of $16.1 million in subcontractor and professional services expense, an increase of $23.1 million in allocated overhead and an increase of $11.9 million in stock-based expenses. We increased our customer support and professional services headcount by 58 percent since January 31, 2013 to meet the higher demand for services from our customers, of which the majority was due to the acquisition of ExactTarget. In June 2013, we entered into a large capital lease agreement for software for a period of nine years, which consists of the contractual term of six years and a renewal option of three years. A portion of the depreciation expense on this asset was allocated to cost of revenues which is included in the amount above.

Research and Development.

	Fiscal Year Ended January 31,				Variance
(in thousands)	2014		2013		Dollars
Research and development	$623,798		$429,479		$194,319
Percent of total revenues	15	%	14	%	

Research and development expenses were $623.8 million, or 15 percent of total revenues, for fiscal 2014, compared to $429.5 million, or 14 percent of total revenues, during fiscal 2013, an increase of $194.3 million. The increase in absolute dollars was due to an increase of $114.9 million in employee-related costs, an increase of $31.1 million in stock-based expenses, an increase of $16.0 million in depreciation and amortization expenses, an increase of $17.2 million in allocated overhead and an increase of $14.8 million in test data lab costs. We increased our research and development headcount by 31 percent since January 31, 2013 in order to improve and extend our service offerings and develop new technologies. The majority of the increase in headcount was due to the acquisition of ExactTarget. In June 2013, we entered into a large capital lease agreement for software for a period of nine years, which consists of the contractual term of six years and a renewal option of three years. A portion of the depreciation expense on this asset was allocated to research and development which is included in the amount above.

Marketing and Sales.

	Fiscal Year Ended January 31,				Variance
(in thousands)	2014		2013		Dollars
Marketing and sales	$2,168,132		$1,614,026		$554,106
Percent of total revenues	53	%	53	%	

Marketing and sales expenses were $2.2 billion, or 53 percent of total revenues, for fiscal 2014, compared to $1.6 billion, or 53 percent of total revenues, during fiscal 2013, an increase of $554.1 million. The increase in absolute dollars was primarily due to an increase of $357.1 million in employee-related costs, an increase of $59.3 million in stock-based expenses, an increase of $57.2 million in advertising, marketing and event costs and an increase of $49.8 million in allocated overhead. Our marketing and sales headcount increased by 33 percent since January 31, 2013. The increase in headcount was primarily attributable to the hiring of additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base, while a portion of the increase was due to the acquisition of ExactTarget.

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General and Administrative.

(in thousands)	Fiscal Year Ended January 31, 2014	2013	Variance Dollars
General and administrative	$596,719	$433,821	$162,898
Percent of total revenues	15 %	15 %	

General and administrative expenses were $596.7 million, or 15 percent of total revenues, for fiscal 2014, compared to $433.8 million, or 15 percent of total revenues, during fiscal 2013, an increase of $162.9 million. The increase was primarily due to an increase of $70.6 million in employee-related costs, an increase of $21.7 million in stock-based expenses, an increase of $48.3 million in professional and outside services, which included transaction fees associated with the ExactTarget acquisition, and an increase in depreciation and amortization expense. Our general and administrative headcount increased by 28 percent since January 31, 2013 as we added personnel to support our growth. The majority of the increase in headcount was due to the acquisition of ExactTarget.

Loss from operations.

(in thousands)	Fiscal Year Ended January 31, 2014	2013	Variance Dollars
Loss from operations	$(286,074)	$(110,710)	$(175,364)
Percent of total revenues	(7)%	(4)%	

Loss from operations for fiscal 2014, was $286.1 million and included $503.3 million of stock-based expenses and $146.5 million of amortization of purchased intangibles. During fiscal 2013, operating loss was $110.7 million and included $379.4 million of stock-based expenses and $88.2 million of amortization of purchased intangibles.

Investment income.

(in thousands)	Fiscal Year Ended January 31, 2014	2013	Variance Dollars
Investment income	$10,218	$19,562	$(9,344)
Percent of total revenues	0 %	1 %	

Investment income consists of income on cash and marketable securities balances. Investment income was $10.2 million for fiscal 2014, and was $19.6 million during fiscal 2013. The decrease was primarily due to the decrease in marketable securities balances.

Interest expense.

(in thousands)	Fiscal Year Ended January 31, 2014	2013	Variance Dollars
Interest expense	$(77,211)	$(30,948)	$(46,263)
Percent of total revenues	(2)%	(1)%	

Interest expense consists of interest on our convertible senior notes, term loan and capital leases. Interest expense, net of interest costs capitalized, was $77.2 million for fiscal 2014 and was $30.9 million for fiscal 2013. The increase was primarily due to interest expense associated with the March 2013 issuance of $1.15 billion of 0.25% convertible senior notes, the $300.0 million term loan that was entered into in connection with the acquisition of ExactTarget and the large capital lease agreement for software which we entered into in June 2013.

Benefit from (provision for) Income Taxes.

(in thousands)	Fiscal Year Ended January 31, 2014	2013	Variance Dollars
Benefit from (provision for) income taxes	$125,760	$(142,651)	$268,411
Effective tax rate	35 %	(112)%	

We reported a tax benefit of $125.8 million with a pretax loss of $357.9 million, which resulted in an effective tax rate of 35 percent for fiscal 2014. Due to the ExactTarget acquisition, a deferred tax liability was established for the book-tax basis difference related to purchased intangibles. The net deferred tax liability from acquisitions provided an additional source of income to support the realizability of our pre-existing deferred tax assets and as a result, we released a portion of the valuation allowance that was established in fiscal 2013 and recorded a tax benefit of $143.1 million for fiscal 2014.

We recorded a tax provision of $142.7 million on a pretax loss of $127.8 million, which resulted in a negative effective tax rate of 112 percent for fiscal 2013. Our effective tax rate substantially differed from the federal statutory tax rate of 35 percent primarily due to the tax charge of $186.8 million to establish a valuation allowance for a significant portion of our deferred tax assets.

We regularly assess the need for a valuation allowance against our deferred tax assets by considering both positive and negative evidence related to the likelihood of the realization of the deferred tax assets to determine if it is more-likely-than-not that some or all of the deferred tax assets will 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 fiscal 2013, we determined that the negative evidence outweighed the positive evidence and a valuation allowance for a significant portion of our deferred tax assets was established that resulted in a tax expense of $186.8 million.

Liquidity and Capital Resources

At January 31, 2015, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $1.9 billion, which excludes restricted cash of $115.0 million, and accounts receivable of $1.9 billion.

Net cash provided by operating activities was $1.2 billion during fiscal 2015 and $875.5 million during the same period a year ago. Cash provided by operating activities has historically been affected by the amount of net loss adjusted for non-cash expense items such as depreciation and amortization, amortization of purchased intangibles from business combinations, amortization of debt discount, and the expense associated with stock-based awards; the reclassification of excess tax benefits from employee stock plans to cash flows from financing activities; the timing of employee related costs including commissions and bonus payments; the timing of collections from our customers, which is our largest source of operating cash flows; and changes in working capital accounts.

Our working capital accounts consist of accounts receivables and prepaid assets and other current assets. Claims against working capital include accounts payable, accrued expenses and other current liabilities and our convertible notes. Our working capital may be impacted by factors in future periods, certain amounts and timing of which are seasonal, such as billings to customers for subscriptions and support services and the subsequent collection of those billings.

As described above in “Seasonal Nature of Deferred Revenue and Accounts Receivable,” 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 business causes the value of invoices that we generate in the fourth quarter to increase as a proportion of our total annual billings.

We generally invoice our customers for our subscription and services contracts in advance in annual installments. We typically issue renewal invoices 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. Such invoice amounts are initially reflected in accounts receivable and deferred revenue, which is reflected on the balance sheet. The operating cash flow benefit of increased billing activity generally occurs in the subsequent quarter when we collect from our customers. As such, our first quarter has become our largest collections and operating cash flow quarter.

Net cash provided by operating activities during fiscal 2015 increased $298.2 million over the same period a year ago primarily due to higher net income after adjusting for depreciation and amortization, loss on conversions of convertible senior notes, stock-based expenses and the timing of payments against accounts payable, accrued expenses and other current liabilities.

Net cash used in investing activities was $698.4 million during fiscal 2015 and $2.4 billion during the same period a year ago. The net cash used in investing activities during fiscal 2015 primarily related to capital expenditures, including new office build-outs, investment of cash balances and strategic investments offset by proceeds from sales and maturities of marketable securities. Net cash used in investing activities during fiscal 2015 decreased by $1.7 billion over the same period a year ago primarily due to cash used for the acquisitions of ExactTarget, Inc. and EdgeSpring, Inc. during fiscal 2014, offset by cash proceeds from sales of land and building improvements totaling $223.2 million and cash acquired of $38.1 million from business combinations during fiscal 2015. Additionally, we made deposits totaling $126.4 million for the purchase of building and land during fiscal 2015.

Net cash used in financing activities was $310.5 million during fiscal 2015 as compared to net cash provided by financing activities of $1.6 billion during the same period a year ago. Net cash used in financing activities during fiscal 2015 consisted primarily of $568.9 million in principal payments on our 0.75% convertible senior notes, $70.7 million of principal payments on capital leases and $285.0 million of payments on our term loan, offset by $309.0 million from proceeds from equity plans and $297.3 million from our revolving credit facility. Net cash flows used in financing activities during fiscal 2015 changed $1.9 billion from the same period a year ago primarily due to $1.1 billion of proceeds from the issuance of convertible senior notes and related hedge transactions during fiscal 2014, and an increase of $562.9 million in principal payments on our 0.75% convertible senior notes during fiscal 2015.

In January 2010, we issued $575.0 million of 0.75% convertible senior notes due January 15, 2015 (the "0.75% Senior Notes") and concurrently entered into convertible notes hedges (the "0.75% Note Hedges") and separate warrant transactions (the "0.75% Warrants"). On January 15, 2015, the 0.75% Senior Notes matured. Upon maturity of the 0.75% Senior Notes, we delivered cash up to the remaining principal amount of the 0.75% Senior Notes and shares of our common stock for the excess conversion value greater than the principal amount of the 0.75% Senior Notes. As of January 31, 2015, there is no remaining principal balance of the 0.75% Senior Notes outstanding. As a result of the conversions and maturity of the 0.75% Senior Notes during fiscal 2015, the Company exercised its rights on the 0.75% Note Hedges, and the 0.75% Note Hedges expired. Additionally, in fiscal 2015 the Company entered into agreements with each of the 0.75% Warrant counterparties to amend and settle the 0.75% Warrants prior to their scheduled expiration beginning in April 2015. As a result, the Company issued, in the aggregate, approximately 13.3 million shares to the counterparties to settle, via a net share settlement, the entirety of the 0.75% Warrants.

In March 2013, we issued $1.15 billion of 0.25% convertible senior notes due April 1, 2018 (the "0.25% Senior Notes") and concurrently entered into convertible notes hedges (the "0.25% Note Hedges") and separate warrant transactions (the "0.25% Warrants"). The 0.25% Senior Notes will mature on April 1, 2018, unless earlier converted. Upon conversion of any 0.25% Senior Notes, we will deliver cash up to the principal amount of the 0.25% Senior Notes and, with respect to any excess conversion value greater than the principal amount of the 0.25% Senior Notes, shares of our common stock, cash, or a combination of both.

The 0.25% Senior Notes will be convertible if during any 20 trading days during the 30 consecutive trading days of any fiscal quarter, our common stock trades at a price exceeding 130% of the conversion price of $66.44 per share applicable to the 0.25% Senior Notes. The 0.25% Senior Notes have not yet been convertible at the holders' option. The 0.25% Senior Notes are classified as a noncurrent liability on our consolidated balance sheet as of January 31, 2015. Our common stock did not trade at a price exceeding 130% of the conversion price of $66.44 per share applicable to the 0.25% Senior Notes during the fiscal quarter ended January 31, 2015. Accordingly, the 0.25% Senior Notes will not be convertible at the holders' option for the quarter ending April 30, 2015, and will remain classified as a noncurrent liability on our consolidated balance sheet.

In July 2013, we entered into a credit agreement (the "Prior Credit Agreement") with Bank of America, N.A. and certain other lenders, which provided for a $300.0 million term loan (the "Term Loan"). The Term Loan bore interest at our option under either a LIBOR-based formula or a base rate formula, each as set forth in the Prior Credit Agreement. On October 6, 2014, we repaid the Term Loan in full and terminated the Prior Credit Agreement.

In October 2014, we entered into a credit agreement (the "Credit Agreement") which provides for a $650.0 million unsecured revolving credit facility (the "Credit Facility") that matures in October 2019. Immediately upon closing, we borrowed $300.0 million under the Credit Facility, approximately $262.5 million of which was used to repay in full the indebtedness under our Term Loan. We may use any future borrowings under the Credit Facility for working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. We may borrow amounts under the Credit Facility at any time during the term of the Credit Agreement. We may also prepay the borrowings under the Credit Facility, in whole or in part, at any time without premium or penalty, subject to certain conditions, and amounts repaid or prepaid may be reborrowed.

Borrowings under the Credit Facility bear interest, at our option at either a base rate formula or a LIBOR based formula, each as set forth in the Credit Agreement. Additionally, we are obligated to pay an ongoing commitment fee at a rate between 0.125% and 0.25%. Interest and the commitment fee are payable in arrears quarterly.

The Credit Agreement contains certain customary affirmative and negative covenants, including a consolidated leverage ratio covenant, a consolidated interest coverage ratio covenant, a limit on our ability to incur additional indebtedness, dispose of assets, make certain acquisition transactions, pay dividends or distributions, and certain other restrictions on our activities each defined specifically in the Credit Agreement. We were in compliance with the Credit Agreement's covenants as of January 31, 2015.

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The weighted average interest rate on borrowings under the Credit Facility was 1.7% for the period beginning October 6, 2014 and ended January 31, 2015. As of January 31, 2015, outstanding borrowings under the Credit Facility were $300.0 million.

In August 2014, we sold approximately 3.7 net acres of our undeveloped real estate in San Francisco for a total of $72.5 million. Separately, in September 2014, we sold approximately 1.5 net acres of our undeveloped real estate for a total of $125.0 million. We have 8.8 net acres remaining for sale as of January 31, 2015.

In February 2015, we acquired 50 Fremont Street, a 41-story building totaling approximately 817,000 rentable square feet located in San Francisco, California ("50 Fremont"). We acquired 50 Fremont for the purpose of expanding our global headquarters in San Francisco. As of January 31, 2015, we were leasing approximately 500,000 square feet of the available space in 50 Fremont. See Note 14, "Subsequent Event" in the Notes to the Consolidated Financial Statements.

The total purchase price for 50 Fremont was $629.3 million. To pay for 50 Fremont, we used $115.0 million of restricted cash and assumed a $200.0 million loan secured by the property with the remainder paid in cash.

Our cash, cash equivalents and marketable securities are comprised primarily of corporate notes and other obligations, U.S. treasury securities, U.S. agency obligations, government obligations, collateralized mortgage obligations, mortgage backed securities, time deposits, money market mutual funds and municipal securities.

As of January 31, 2015, we have a total of $63.8 million in letters of credit outstanding in favor of certain landlords for office space. To date, no amounts have been drawn against the letters of credit, which renew annually and expire at various dates through December 2030.

We do not have any special purpose entities, and other than operating leases for office space and computer equipment, we do not engage in off-balance sheet financing arrangements.

Our principal commitments consist of obligations under leases for office space, co-location data center facilities, and our development and test data center, as well as leases for computer equipment, software, furniture and fixtures. At January 31, 2015, the future non-cancelable minimum payments under these commitments were as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital lease obligations, including interest	$651,344	$104,825	$232,241	$314,278	$0
Operating lease obligations:					
Facilities space	2,027,140	178,552	351,882	372,336	1,124,370
Computer equipment and furniture and fixtures	251,834	110,995	139,854	985	0
0.25% Convertible Senior Notes, including interest	1,160,422	2,875	6,109	1,151,438	0
Revolving Credit Facility	300,000	0	0	300,000	0
Financing obligation - building in progress - leased facility	335,824	1,777	37,984	43,546	252,517
Contractual commitments	18,823	1,316	2,598	14,909	0
	$4,745,387	$400,340	$770,668	$2,197,492	$1,376,887

The majority of our operating lease agreements provide us with the option to renew. Our future operating lease obligations would change if we exercised these options and if we entered into additional operating lease agreements as we expand our operations. The financing obligation above represents the total obligation for our lease of approximately 445,000 rentable square feet of office space in San Francisco, California. As of January 31, 2015, $125.3 million of the total obligation noted above was recorded to Financing obligation, building in progress - leased facility, which is included in "Other noncurrent liabilities" on the consolidated balance sheets.

In April 2014, we entered into an office lease agreement to lease approximately 714,000 rentable square feet of an office building located in San Francisco, California that is under construction. The lease payments associated with the lease will be approximately $560.0 million over the 15.5 year term of the lease, beginning in our first quarter of fiscal

2018, which is reflected above under Operating Leases.

Subsequent to January 31, 2015, we acquired 50 Fremont. As of January 31, 2015, we had been leasing approximately 500,000 square feet of 50 Fremont (see Note 14 "Subsequent Event" in the Notes to the Consolidated Financial Statements). The lease, which was signed in January 2012, is reflected above under Operating lease obligations, and the commitment totals $238.5 million. The operating lease commitment is as follows: $16.1 million during fiscal 2016; $16.6 million during fiscal 2017; $17.1 million during fiscal 2018; $17.6 million during fiscal 2019; $18.1 million during fiscal 2020; and $153.0 thereafter. Beginning in the quarter ending April 30, 2015, this commitment will be removed from operating lease obligations.

During fiscal 2015 and in future fiscal years, we have made and expect to continue to make additional investments in our infrastructure to scale our operations and increase productivity. We plan to upgrade or replace various internal systems to scale with the overall growth of the Company. Additionally, we expect capital expenditures to be higher in absolute dollars and remain consistent as a percentage of total revenues in future periods as a result of continued office build-outs, other leasehold improvements and data center investments.

In the future, we may enter into arrangements to acquire or invest in complementary businesses or joint ventures, services and technologies, and intellectual property rights. We may be required to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

We believe our existing cash, cash equivalents and short-term marketable securities and cash provided by operating activities will be sufficient to meet our working capital, capital expenditure and debt repayment needs over the next 12 months.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which amended the existing FASB Accounting Standards Codification. This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. ASU 2014-09 is effective for fiscal 2018, including interim periods within that reporting period. Early adoption is not permitted. We are currently in the process of assessing the adoption methodology, which allows the amendment to be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial application. We are also evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements and have not determined whether the effect will be material to either our revenue results or our deferred commissions balances.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP gross profit, non-GAAP operating profit, non-GAAP net income and non-GAAP earnings per share each meet the definition of a non-GAAP financial measure.

Non-GAAP gross profit, Non-GAAP operating profit and Non-GAAP net income

We use the non-GAAP measures of non-GAAP gross profit, non-GAAP operating profit and non-GAAP net income to provide an additional view of operational performance by excluding expenses and benefits that are not directly related to performance in any particular period. In addition to our GAAP measures we use these non-GAAP measures when planning, monitoring, and evaluating our performance. We believe that these non-GAAP measures reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business, as they exclude certain expenses and benefits. These items are excluded because the decisions which gave rise to them are not made to increase revenue in a particular period, but are made for our long-term benefit over multiple periods and we are not able to change or affect these items in any particular period.

We define non-GAAP net income as our total net income excluding the following components, which we believe are not reflective of our ongoing operational expenses. In each case, for the reasons set forth below, we believe that excluding the component provides useful information to investors and others in understanding and evaluating the impact of certain items to our operating results and future prospects in the same manner as us, in comparing financial results across accounting periods and to those of peer companies and to better understand the impact of these items on our gross margin and operating performance. Additionally, as significant, unusual or discrete events occur, the results may be excluded in the period in which the events occur.

- Stock-Based Expense. The Company's compensation strategy includes the use of stock-based compensation to attract and retain employees and executives. It is principally aimed at aligning their interests with those of our stockholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, stock-based expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- Amortization of Purchased Intangibles. The Company views 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, as items arising from pre-acquisition activities determined at the time of an acquisition. While it is continually viewed for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.
- Amortization of Debt Discount. Under GAAP, certain convertible debt instruments that may be settled in cash (or other assets) on conversion are required to be separately accounted for as liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. Accordingly, for GAAP purposes we are required to recognize imputed interest expense on the Company's $575.0 million of convertible senior notes that were issued in a private placement in January 2010 and the Company's $1.15 billion of convertible senior notes that were issued in a private placement in March 2013. The imputed interest rates were approximately 5.86% for the notes issued in January 2010 and approximately 2.53% for the notes issued in March 2013, while the coupon interest rates were 0.75% and 0.25%, respectively. The difference between the imputed interest expense and the coupon interest expense, net of the interest amount capitalized, is excluded from management's assessment of the Company's operating performance because management believes that this non-cash expense is not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of the Company's operational performance.
- Non-Cash Gains/Losses on Conversions of Debt. Upon settlement of the Company's convertible senior notes, we attribute the fair value of the consideration transferred to the liability and equity components of the convertible senior notes. The difference between the fair value of consideration attributed to the liability component and the carrying value of the liability as of settlement date is recorded as a non-cash gain or loss on the statement of operations. Management believes that the exclusion of the non-cash gain/loss provides investors an enhanced view of the company's operational performance.
- Gain on sales of land and building improvements. The Company views the non-operating gains associated with the sales of the land and building improvements to be a discrete item. Management believes that the exclusion of the gains provides investors an enhanced view of the Company's operational performance.
- Income Tax Effects and Adjustments. During fiscal 2014, the Company's non-GAAP tax provision excluded the tax effects of expense items described above and certain tax items not directly related to the current fiscal year's ordinary operating results. Examples of such tax items included, but are not limited to, changes in the valuation allowance related to deferred tax assets, certain acquisition-related costs and unusual or infrequently occurring items. Management believes the exclusion of these income tax adjustments provides investors with useful supplemental information about the Company's operational performance. During fiscal 2015, the Company began to compute and utilize a fixed long-term projected non-GAAP tax rate in order to provide better consistency across the interim reporting periods by eliminating the effects of non-recurring and period-specific items such as changes in the tax valuation allowance and tax effects of acquisitions-related costs, since each of these items can vary in size and frequency. When projecting this long-term rate, the Company evaluated a three-year financial projection that excludes the impact of the following items: Stock-Based Expenses, Amortization of Purchased Intangibles, Amortization of Debt Discount, Gains/Losses on Conversions of Debt, and Gains/Losses on sales of land and building improvements. The projected rate also assumes no new acquisitions in the three-year period, and takes into account other factors including the Company's current tax structure, its existing tax positions in various jurisdictions and key legislation in major jurisdictions where the Company operates. The non-GAAP tax rate for fiscal 2015 is 36.5%. The Company intends to re-evaluate this long-term rate on an annual basis or if any significant events that may materially affect this long-term rate occur. This long-term rate could be subject to change for a variety of reasons, for example, significant changes in the geographic earnings mix including acquisition activity, or fundamental tax law changes in major

jurisdictions where the Company operates.

We define non-GAAP gross profit as our total revenues less cost of revenues, as reported on our consolidated statement of operations, excluding the portions of stock-based expenses and amortization of purchased intangibles that are included in cost of revenues.

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We define non-GAAP operating profit as our non-GAAP gross profit less operating expenses, as reported on our consolidated statement of operations, excluding the portions of stock-based expenses and amortization of purchased intangibles that are included in operating expenses.

Non-GAAP earnings per share

Management uses the non-GAAP earnings per share to provide an additional view of performance by excluding items that are not directly related to performance in any particular period in the earnings per share calculation.

We define non-GAAP earnings per share as our non-GAAP net income, which excludes the above components, which we believe are not reflective of our ongoing operational expenses, divided by basic or diluted shares outstanding.

Limitations on the use of non-GAAP financial measures

A limitation of our non-GAAP financial measures of non-GAAP gross profit, non-GAAP operating profit, non-GAAP net income and non-GAAP earnings per share is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP measures of non-GAAP gross profit, non-GAAP operating profit, non-GAAP net income and non-GAAP earnings per share should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, in the case of stock-based expense, if we did not pay a portion of compensation in the form of stock-based expense, the cash salary expense included in costs of revenues and operating expenses would be higher which would affect our cash position.

We compensate for these limitations by reconciling non-GAAP gross profit, non-GAAP operating profit, non-GAAP net income and non-GAAP earnings per share to the most comparable GAAP financial measure. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

Our reconciliation of the non-GAAP financial measures of gross profit, operating profit, net income and earnings per share to the most comparable GAAP measure, “gross profit,” “loss from operations,” “net income (loss)” and “net income (loss) per share” for fiscal years 2015, 2014 and 2013 are as follows (in thousands, except for share numbers):

	Fiscal Year Ended January 31,		
	2015	2014	2013
Non-GAAP gross profit			
GAAP gross profit	$4,084,316	$3,102,575	$2,366,616
Plus:			
Amortization of purchased intangibles	90,300	109,356	77,249
Stock-based expenses	53,812	45,608	33,757
Non-GAAP gross profit	$4,228,428	$3,257,539	$2,477,622

	Fiscal Year Ended January 31,		
	2015	2014	2013
Non-GAAP operating profit			
GAAP loss from operations	$(145,633)	$(286,074)	$(110,710)
Plus:			
Amortization of purchased intangibles	154,973	146,535	88,171
Stock-based expenses	564,765	503,280	379,350
Non-GAAP operating profit	$574,105	$363,741	$356,811

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	Fiscal Year Ended January 31,		
	2015	2014	2013
Non-GAAP net income			
GAAP net loss	$(262,688)	$(232,175)	$(270,445)
Plus:			
Amortization of purchased intangibles	154,973	146,535	88,171
Stock-based expenses	564,765	503,280	379,350
Amortization of debt discount, net	36,575	46,728	23,837
Loss on conversion of debt	10,326	214	0
Less:			
Gain on sales of land and building improvements	(15,625)	0	0
Income tax effects and adjustments of Non-GAAP items	(146,741)	(242,729)	21,629
Non-GAAP net income	$341,585	$221,853	$242,542

	Fiscal Year Ended January 31,		
	2015	2014	2013
Non-GAAP diluted earnings per share			
GAAP diluted loss per share	$(0.42)	$(0.39)	$(0.48)
Plus:			
Amortization of purchased intangibles	0.24	0.23	0.15
Stock-based expenses	0.87	0.79	0.64
Amortization of debt discount, net	0.06	0.07	0.04
Loss on conversion of debt	0.02	0.00	0.00
Less:			
Gain on sales of land and building improvements	(0.02)	0.00	0.00
Income tax effects and adjustments of Non-GAAP items	(0.23)	(0.35)	0.06
Non-GAAP diluted earnings per share	$0.52	$0.35	$0.41
Shares used in computing diluted net income per share	651,534	635,688	596,280

Non-GAAP operating profit for the year ended January 31, 2015 was $574.1 million and $363.7 million for the same period a year ago, an improvement of $210.4 million or 58 percent. During fiscal 2015 we remained focused on improving non-GAAP operating profit and expect to remain similarly focused in fiscal 2016.

The effects of dilutive securities were not included in the GAAP calculation of diluted earnings/loss per share for the years ended January 31, 2015, 2014 and 2013 because we had a net loss for those periods and the effect would have been anti-dilutive. The following table reflects the effect of the dilutive securities on the basic share count used in the GAAP earnings/loss per share calculation to derive the share count used for the non-GAAP diluted earnings per share:

	Fiscal Year Ended January 31,		
Supplemental Diluted Sharecount Information (in thousands):	2015	2014	2013
Weighted-average shares outstanding for GAAP basic earnings per share	624,148	597,613	564,896
Effect of dilutive securities:			
Convertible senior notes	5,381	14,550	11,360
Warrants associated with the convertible senior note hedges	9,536	9,658	5,132
Employee stock awards	12,469	13,867	14,892
Adjusted weighted-average shares outstanding and assumed conversions for Non-GAAP diluted earnings per share	651,534	635,688	596,280

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Supplemental Tax Expense (Benefit) Information:

As described above, beginning in February 2014, which was the start of our fiscal 2015, we changed the methodology used to calculate our non-GAAP tax expense. We have computed and are utilizing a fixed long-term projected non-GAAP tax rate of 36.5 percent for fiscal 2015. We moved to this long-term projected non-GAAP tax rate in order to provide better consistency across the interim reporting periods by eliminating the effects of non-recurring and period-specific items. As a result, we believe that starting in fiscal 2015, providing a tabular reconciliation of the non-GAAP financial measure of tax expense (benefit) to the comparable GAAP measure is not appropriate given our new methodology.

During the third quarter of fiscal 2013, we recorded for GAAP purposes a valuation allowance against a significant portion of our U.S. deferred tax assets. During fiscal 2014, we recorded a partial valuation allowance release, primarily in connection with the acquisition of ExactTarget. The increasing number of tax adjustments reflected below was the result of the GAAP valuation allowance and the Company's increasing acquisition activities. The following table for fiscal 2014 and 2013 reflects the calculation of our non-GAAP tax expense:

	Fiscal Year Ended January 31,	
Non-GAAP tax expense (in thousands):	2014	2013
GAAP Tax Expense (Benefit)	(125,760)	142,651
GAAP to Non-GAAP Adjustments - tax effects of:		
Stock-based expenses, amortization of purchased intangibles and amortization of debt discount, net (1)	229,277	169,501
Deferred tax asset partial valuation (reserve) release (2)	25,048	(186,806)
State income tax credits not benefited (3)	5,325	0
Acquisitions-related costs (4)	(19,708)	0
Other, net (5)	2,787	(4,324)
Total Adjustments	242,729	(21,629)
Non-GAAP Tax Expense	116,969	121,022

(1) The Company excluded stock-based expenses, amortization of purchased intangibles, and amortization of debt discount, net, in reporting its non-GAAP net income. Accordingly, the Company excluded the related tax effects of these items. The related tax effects were computed by applying the relevant statutory tax rate to these items for each respective jurisdiction.

(2) During fiscal 2013, the Company evaluated both positive and negative evidence related to the likelihood of the realization of the deferred tax assets and determined that the negative evidence outweighed the positive evidence due to the cumulative GAAP loss in recent years and forecasted future GAAP losses. As a result, a valuation allowance was established against a significant portion of the deferred tax assets in Q3 fiscal 2013. However, a valuation allowance would not be necessary on a non-GAAP basis given the Company's non-GAAP operating income. As a result, the Company excluded its GAAP valuation allowance recorded during the period when computing its non-GAAP tax expense.

(3) During fiscal 2014, California mandated a change to the way it apportioned income to the state, which significantly reduced the Company's California income tax expense. Accordingly, for computing non-GAAP tax expense, the Company did not
recognize tax benefits related to certain California research and development tax credits as the Company believed these credits may not be realized given the lowered California income tax expense.

(4) During fiscal 2014, the Company excluded certain tax effects related to acquisitions in computing its non-GAAP tax expense. The majority of this adjustment was attributable to non-cash tax costs associated with the transfer of purchased intangibles. This non-cash tax item was excluded because the decisions which gave rise to these non-cash tax costs were neither made to increase revenue nor directly related to performance in any particular period, but were

made for the Company’s long term benefit over multiple periods. The remainder of this adjustment included the tax effects of legal and accounting fees incurred to facilitate transactions, which amount was not material. The related tax effects were computed by applying the relevant statutory tax rate to these items for each respective jurisdiction.

(5) Other, net included multiple items that were immaterial either on an individual basis or an aggregate basis.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling, Canadian Dollar, Australian Dollar and Japanese Yen. We seek to minimize the impact of certain foreign currency fluctuations by hedging certain balance sheet exposures with foreign currency forward contracts. Any gain or loss from settling these contracts is offset by the loss or gain derived from the underlying balance sheet exposures. In accordance with our policy, the hedging contracts we enter into have maturities of less than three months. Additionally, by policy, we do not enter into any hedging contracts for trading or speculative purposes.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling $1.9 billion at January 31, 2015. This amount was invested primarily in money market funds, time deposits, corporate notes and bonds, government securities and other debt securities with credit ratings of at least BBB or better. The cash, cash equivalents and short-term marketable securities are held for general corporate purposes including possible acquisitions of, or investments in, complementary businesses, services or technologies, working capital and capital expenditures. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our portfolio of marketable securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However because we classify our debt securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Our fixed-income portfolio is subject to interest rate risk.

An immediate increase or decrease in interest rates of 100-basis points at January 31, 2015 could result in a $13.5 million market value reduction or increase of the same amount. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

As of January 31, 2015, we had restricted cash totaling $115.0 million that was held in a money market account, which is subject to market risk due to changes in interest rates.

At January 31, 2014, we had cash, cash equivalents and marketable securities totaling $1.3 billion. The fixed-income portfolio was also subject to interest rate risk. Changes in interest rates of 100-basis points would have resulted in market value changes of $8.8 million.

Market Risk and Market Interest Risk

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the “0.25% Senior Notes”) (collectively the “Notes”). Holders of the 0.25% Senior Notes may convert the 0.25% Senior Notes prior to maturity upon the occurrence of certain circumstances. Upon conversion, we would pay the holder an amount of cash equal to the principal amounts of the Notes. For the 0.25% Senior Notes, the amounts in excess of the principal amounts, if any, may be paid in cash or stock at our option. Concurrent with the issuance of the Notes, we entered into separate note hedging transactions and the sale of warrants. These separate transactions were completed to reduce the potential economic dilution from the conversion of the Notes.

The 0.25% Senior Notes have a fixed annual interest rate of 0.25%, and therefore we do not have economic interest rate exposure on the Notes. However, the value of the Notes are exposed to interest rate risk. Generally, the fair values of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our 0.25% Notes is affected by our stock price. The principal balance of our 0.25% Senior Notes was $1.15 billion as of January 31, 2015. The total estimated fair value of our 0.25% Senior Notes at January 31, 2015 was $1.3 billion. The fair value was determined based on the closing trading price per $100 of the 0.25% Senior Notes as of the last day of trading for the fourth quarter of fiscal 2015, which was $110.87.

In October 2014, we entered into a credit agreement (the “Credit Agreement”) which provides for a $650.0 million unsecured revolving credit facility that matures in October 2019 (the “Credit Facility”). Immediately upon closing, we borrowed $300.0 million under the Credit Facility.

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Borrowings under the Credit Facility bear interest, at our option, at either a base rate formula, as defined in the Credit Agreement, or a LIBOR based formula, each as set forth in the Credit Agreement. Additionally, we are obligated to pay an ongoing commitment fee at a rate between 0.125% and 0.25%. Interest and the commitment fees are payable in arrears quarterly.

By entering into the Credit Agreement, we have assumed risks associated with variable interest rates based upon a variable base rate, as defined in the Credit Agreement, or LIBOR. The weighted average interest rate on the Credit Facility was 1.7% for the period beginning October 6, 2014 and ended January 31, 2015. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations.

We deposit our cash with multiple financial institutions, therefore our deposits, at times, may exceed federally insured limits.

The bank counterparties to the derivative contracts potentially expose us to credit-related losses in the event of their nonperformance. To mitigate that risk, we only contract with counterparties who meet the minimum requirements under our counterparty risk assessment process. We monitor ratings, credit spreads and potential downgrades on at least a quarterly basis. Based on our on-going assessment of counterparty risk, we adjust our exposure to various counterparties. We generally enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. However, we do not have any master netting arrangements in place with collateral features.

We have an investment portfolio that includes strategic investments in public and privately-held companies, many of which are in the development stage. When our ownership interests are less than 20 percent and we do not have the ability to exert significant influence, we account for investments in non-marketable equity and debt securities of the privately-held companies using the cost method of accounting. Otherwise, we account for the investments using the equity method of accounting. Our portfolio consists of investments in approximately 100 companies, with our investments in these companies ranging from $0.2 million to $40.0 million. As of January 31, 2015 and January 31, 2014 the carrying value of our investments in privately-held companies was $158.0 million and $77.0 million, respectively. The estimated fair value of our investments in privately-held companies was $280.0 million as of January 31, 2015.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of salesforce.com, inc.

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. as of January 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(c). These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of salesforce.com, inc. at January 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), salesforce.com inc.'s internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated March 5, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Jose, California

March 5, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of salesforce.com, inc.

We have audited salesforce.com, inc.'s internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the COSO criteria). salesforce.com, inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, salesforce.com, inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of salesforce.com, inc. as of January 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2015 of salesforce.com, inc. and our report dated March 5, 2015 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
San Jose, California

March 5, 2015

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salesforce.com, inc.
Consolidated Balance Sheets
(in thousands, except per share data)

	January 31, 2015	January 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$908,117	$781,635
Short-term marketable securities	87,312	57,139
Accounts receivable, net of allowance for doubtful accounts of $8,146 and $4,769 at January 31, 2015 and 2014, respectively	1,905,506	1,360,837
Deferred commissions	225,386	171,461
Prepaid expenses and other current assets	280,554	309,180
Land and building improvements held for sale	143,197	0
Total current assets	3,550,072	2,680,252
Marketable securities, noncurrent	894,855	482,243
Property and equipment, net	1,125,866	1,240,746
Deferred commissions, noncurrent	162,796	153,459
Capitalized software, net	433,398	481,917
Goodwill	3,782,660	3,500,823
Other assets, net	628,320	613,490
Restricted cash	115,015	0
Total assets	$10,692,982	$9,152,930
Liabilities, temporary equity and stockholders’ equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$1,103,335	$934,324
Deferred revenue	3,286,768	2,473,705
Convertible 0.75% senior notes, net	0	542,159
Term loan, current	0	30,000
Total current liabilities	4,390,103	3,980,188
Convertible 0.25% senior notes, net	1,070,692	1,046,930
Term loan, noncurrent	0	255,000
Revolving credit facility	300,000	0
Deferred revenue, noncurrent	34,681	48,410
Other noncurrent liabilities	922,323	757,187
Total liabilities	6,717,799	6,087,715
Temporary equity	0	26,705
Stockholders’ equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized and none issued and outstanding	0	0
Common stock, $0.001 par value; 1,600,000 shares authorized, 650,596 and 610,143 issued and outstanding at January 31, 2015 and 2014, respectively	651	610
Additional paid-in capital	4,604,485	3,363,377
Accumulated other comprehensive income (loss)	(24,108)	17,680
Accumulated deficit	(605,845)	(343,157)
Total stockholders’ equity	3,975,183	3,038,510
Total liabilities, temporary equity and stockholders’ equity	$10,692,982	$9,152,930

See accompanying Notes.

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salesforce.com, inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Fiscal Year Ended January 31,		
	2015	2014	2013
Revenues:			
Subscription and support	$5,013,764	$3,824,542	$2,868,808
Professional services and other	359,822	246,461	181,387
Total revenues	5,373,586	4,071,003	3,050,195
Cost of revenues (1)(2):			
Subscription and support	924,638	711,880	494,187
Professional services and other	364,632	256,548	189,392
Total cost of revenues	1,289,270	968,428	683,579
Gross profit	4,084,316	3,102,575	2,366,616
Operating expenses (1)(2):			
Research and development	792,917	623,798	429,479
Marketing and sales	2,757,096	2,168,132	1,614,026
General and administrative	679,936	596,719	433,821
Total operating expenses	4,229,949	3,388,649	2,477,326
Loss from operations	(145,633)	(286,074)	(110,710)
Investment income	10,038	10,218	19,562
Interest expense	(73,237)	(77,211)	(30,948)
Gain on sales of land and building improvements	15,625	0	0
Other expense	(19,878)	(4,868)	(5,698)
Loss before benefit from (provision for) income taxes	(213,085)	(357,935)	(127,794)
Benefit from (provision for) income taxes	(49,603)	125,760	(142,651)
Net loss	$(262,688)	$(232,175)	$(270,445)
Basic net loss per share	$(0.42)	$(0.39)	$(0.48)
Diluted net loss per share	$(0.42)	$(0.39)	$(0.48)
Shares used in computing basic net loss per share	624,148	597,613	564,896
Shares used in computing diluted net loss per share	624,148	597,613	564,896

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

	Fiscal Year Ended January 31,		
	2015	2014	2013
Cost of revenues	$90,300	$109,356	$77,249
Marketing and sales	64,673	37,179	10,922

(2) Amounts include stock-based expenses, as follows: