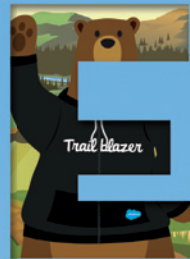




# 2018 ANNUAL REPORT



Trailblazers are pioneers, innovators, lifelong learners, and movers and shakers. They're leaders who leave a path for others to follow, who build a better world for others. They're at the forefront of creating new ways to connect to customers, transform their businesses, and even transform their industries. Their contributions were among the many that helped Salesforce achieve another record-breaking year in FY2018.

In the years to come, we look forward to blazing even more new trails together.

# FY18 HIGHLIGHTS

**\$10.5 billion**  
FY18 Revenue, up 25% year over year.

**\$20.4 billion**  
Billed and Unbilled Deferred Revenue,\* up 40% year over year.

**\$2.7 billion**  
Full-Year Operating Cash Flow, up 27% year over year.

**29,000+**  
Employees

**95%**  
Of the Fortune 100 run at least one app from AppExchange.

**2.6 million+**  
Hours contributed to the community since inception.

\*"Unbilled Deferred Revenue" represents business that is contracted but unbilled and off the balance sheet.





# Fellow shareholders,

Salesforce is a different kind of company. We operate with a set of core values – earning the trust of all our stakeholders, driving customer success, delivering constant innovation, and fostering the equality of every human being. By putting our values into action every day on behalf of all our stakeholders – our shareholders, employees, customers, partners, and communities – we advanced our position as the world’s #1 customer relationship management company and delivered another phenomenal year of growth.

Guided by our values, Salesforce surpassed \$10 billion in annual revenue in fiscal year 2018, and we reached this milestone faster than any other enterprise software company in history. Our extraordinary growth is powered by the digital transformation of companies of all sizes and industries, and this transformation starts and ends with the customer. We now have nearly twice as many \$20 million-plus relationships with customers than we did just a year ago.

In the past year, Salesforce powered nearly 2 trillion business-to-business (B2B) and business-to-consumer (B2C) transactions for our more than 150,000 customers. Our artificial intelligence technology, Salesforce Einstein, now generates more than 1 billion predictions a day. And with Trailhead, our free online learning platform that is accessible to anyone, more than 500,000 people have learned the skills they need to thrive in our digital economy.

For these reasons, Forbes declared us the Innovator of the Decade, and Fortune ranked Salesforce as the World’s #1 Best Workplace and the 15th Most Admired Company in the world. We’re also proud that Barron’s ranked Salesforce #2 on its list of 100 Most Sustainable Companies.

At the same time, we continued to uphold the trust of the communities where we live and work. Over the past 19 years, Salesforce and our philanthropic entities have given more than \$200 million in grants and delivered technology for free or at discounted rates to more than 34,000 nonprofits. Salesforce employees have also volunteered more than 2.6 million hours. In addition, in fiscal year 2018, Salesforce achieved net-zero greenhouse gas emissions and began delivering a carbon-neutral cloud for all our customers.

As always, our amazing results are only possible with the dedication and partnership of all our stakeholders. Thank you for your continued support. I’m extremely grateful to each of you, and I’m excited for another incredible year of growth and success together.

Mahalo,

A handwritten signature in black ink, appearing to read "Marc". The signature is fluid and cursive, written in a dark color.

Our Trailblazers are an incredible source of inspiration to be our best. Their guiding light has helped make us who we are today.

**#1 ON THE FORTUNE  
"100 BEST COMPANIES  
TO WORK FOR®" LIST**  
2018

**INNOVATOR  
OF THE DECADE**

- Forbes 2017

**#2 ON BARRON'S  
"MOST SUSTAINABLE  
COMPANIES" LIST**  
2018

**15TH MOST  
ADMIRED COMPANY  
IN THE WORLD**

- Fortune Magazine 2018

Thank you.



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended January 31, 2018

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:**

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

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

**Not applicable**

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

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was July 31, 2017, the aggregate market value of its shares (based on a closing price of \$90.80 per share) held by non-affiliates was approximately \$45.5 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 February 28, 2018, there were approximately 731.5 million shares of the Registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for its 2018 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended January 31, 2018, 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.

## INDEX

	<u>Page No.</u>
<b>PART I</b>	
Item 1. Business .....	3
Item 1A. Risk Factors .....	12
Item 1B. Unresolved Staff Comments .....	32
Item 2. Properties .....	32
Item 3. Legal Proceedings .....	33
Item 4. Mine Safety Disclosures .....	34
Item 4A. Executive Officers of the Registrant .....	34
<b>PART II</b>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities .....	37
Item 6. Selected Financial Data .....	38
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation ...	41
Item 7A. Quantitative and Qualitative Disclosures about Market Risk .....	66
Item 8. Consolidated Financial Statements and Supplementary Data .....	70
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure ..	125
Item 9A. Controls and Procedures .....	125
Item 9B. Other Information .....	126
<b>PART III</b>	
Item 10. Directors, Executive Officers and Corporate Governance .....	127
Item 11. Executive Compensation .....	127
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....	127
Item 13. Certain Relationships and Related Transactions and Director Independence .....	127
Item 14. Principal Accountant Fees and Services .....	127
<b>PART IV</b>	
Item 15. Exhibits and Financial Statement Schedules .....	128
Item 16. 10-K Summary .....	129
Index to Exhibits	
Signatures .....	

## FORWARD-LOOKING INFORMATION

*This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Words such as “expects,” “anticipates,” “aims,” “projects,” “intends,” “plans,” “believes,” “estimates,” “seeks,” “assumes,” “may,” “should,” “could,” “would,” “foresees,” “forecasts,” “predicts,” “targets,” variations of such words and similar expressions are intended to identify such forward-looking statements, which may consist of, among other things, trend analyses and statements regarding future events, future financial performance, anticipated growth and industry prospects. These forward-looking statements are based on current expectations, estimates and forecasts, as well as the beliefs and assumptions of our management, and are subject to risks and uncertainties that are difficult to predict, including: 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; the pace of change and innovation in enterprise cloud computing services; the competitive nature of the market in which we participate; our international expansion strategy; our service performance and security, including the resources and costs required to prevent, detect and remediate potential security breaches; the expenses associated with new data centers and third-party infrastructure providers; additional data center capacity; real estate and office facilities space; our operating results and cash flows; new services and product features; our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; the performance and fair value of our investments in complementary businesses through our strategic investment portfolio; our ability to realize the benefits from strategic partnerships and investments; our ability to successfully integrate acquired businesses and technologies; our ability to continue to grow and maintain deferred revenue and unbilled deferred revenue; our ability to protect our intellectual property rights; our ability to develop our brands; our reliance on third-party hardware, software and platform providers; our dependency on the development and maintenance of the infrastructure of the Internet; the effect of evolving domestic and foreign government regulations, including those related to the provision of services on the Internet, those related to accessing the Internet, and those addressing data privacy, cross-border data transfers and import and export controls; the valuation of our deferred tax assets; the potential availability of additional tax assets in the future; the impact of new accounting pronouncements and tax laws, including the U.S. Tax Cuts and Jobs Act, and interpretations thereof; uncertainties affecting our ability to estimate our tax rate; the impact of expensing stock options and other equity awards; the sufficiency of our capital resources; factors related to our outstanding convertible notes, revolving credit facility, term loan and loan associated with 50 Fremont; compliance with our debt covenants and capital lease obligations; current and potential litigation involving us; and the impact of climate change. These and other risks and uncertainties may cause our actual results to 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 additional detail regarding factors that may cause actual results to be different than those expressed in our 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 global leader in customer relationship management, or CRM, software. We deliver our cloud-based software through the internet as a service. We introduced our first CRM solution in 2000, and have since expanded our service offerings into new areas and industries, as well as introduced new features and platform capabilities. Our core mission is to empower our customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things (“IoT”) and artificial intelligence (“AI”) technologies.

Our service offerings are designed to be intuitive and easy to use. They can be deployed rapidly via mobile devices and major internet browsers, configured easily and integrated with other platforms and enterprise applications. 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 enable third parties to develop additional functionality and new applications, or apps, that run on our platform, which are sold separately from, or in conjunction with, our service offerings.

We deliver a comprehensive portfolio of service offerings including sales force automation, customer service and support, marketing automation, digital commerce, community management, collaboration, industry-specific solutions and the Salesforce Platform, also referred to as the Customer Success Platform, which includes Trailhead, Einstein AI, Lightning, IoT, Heroku, Analytics and the AppExchange.

Salesforce operates with a set of core values: trust, growth, innovation and equality. At Salesforce, we believe nothing is more important than the trust of our customers. Customers trust our technology to deliver the highest levels of security, reliability and availability at scale. Our continuous innovation and the democratization of both technology and innovation drives customer success, which in turn drives mutual growth.

Salesforce also believes in giving back. We pioneered, and have inspired other companies to adopt, an integrated philanthropy model called the 1-1-1 model, which leverages 1% of a company's equity, employee time and product to help improve communities around the world. In addition, we have spearheaded initiatives to create a world where equal pay, equal advancement, equal opportunity and equal rights become a reality for our employees and the broader world. We also strive to play a meaningful role in creating a sustainable, low-carbon future by delivering a carbon neutral cloud, operating as a net-zero greenhouse gas emissions company and by working to achieve our goal of 100 percent renewable energy for our global operations.

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

## **Our Cloud Service Offerings**

Our cloud service offerings are as follows:

**Sales Cloud.** The Sales Cloud empowers sales teams to sell faster, smarter and the way they want. No matter the industry, role or company size, Sales Cloud enables companies to store data, monitor leads and progress, forecast opportunities, gain insights through analytics and relationship intelligence, and deliver quotes, contracts and invoices.

**Service Cloud.** The Service Cloud enables companies to deliver smarter, faster and more personalized customer service and support. Our customers use the Service Cloud to connect their service agents with customers anytime and anywhere, on popular devices and across multiple channels: phone, email, messaging, chat, live video, SMS, self-service web portals, social networks, online communities and directly within their own products and mobile apps. In addition, Service Cloud also offers a field service solution that enables companies to connect agents, dispatchers and mobile employees through one centralized platform, on which they can schedule and dispatch work intelligently, and track and manage jobs in real-time.

**Marketing Cloud.** The Marketing Cloud enables companies to plan, personalize and optimize one-to-one customer marketing journeys, including interactions across email, mobile, social, web and connected products. In addition, companies can segment and target audiences to power precise digital marketing at scale. With the Marketing Cloud, customer data can also be integrated with 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.



**Commerce Cloud.** The Commerce Cloud empowers brands to unify the customer experience across all points of commerce, including mobile, web, social and store. With embedded AI that delivers a personalized shopping experience, and a robust partner ecosystem, Commerce Cloud helps companies drive increased engagement, conversion, revenue and loyalty from their customers.

**Community Cloud.** The Community Cloud enables companies to quickly create and manage trusted, branded digital destinations for customers, partners and employees. This allows companies to engage and collaborate directly with groups of people by giving them access to relevant information, apps and experts.

**Quip.** The Quip collaboration platform combines documents, spreadsheets, apps, and chat with live CRM data to deliver a central hub for teams to create, collaborate and get work done. Built mobile-first, Quip breaks down communication barriers and silos to enable every business to collaborate online, offline and from any device.

**Industry Offerings.** To meet the needs of our customers in certain industries, we also provide solutions for Financial Services, Healthcare and Government. Financial Services Cloud enables retail banking and wealth management institutions to bring together disparate lines of business, geographies and channels to put customers at the center of every interaction. For example, Health Cloud is a patient and member relationship platform that harnesses our cloud, social and mobile technologies to deliver more personalized engagement by providing a complete view of the patient, intelligent care collaboration and a connected patient engagement experience. Government Cloud provides departments and agencies with a group of connected cloud services and solutions enabling any agency to build modern, connected app experiences that empower them to work faster, smarter and the way they want.

**Salesforce Platform.** The Salesforce Platform includes tools customers can leverage to build intelligent and connected enterprise apps. Thousands of partner-built apps and millions of custom apps built by customers have been developed on the Salesforce Platform. The Salesforce Platform also offers a full continuum of AI, no-code, low-code and code development and integration services, including Trailhead, Einstein AI, Lightning, IoT, Heroku, Analytics and the AppExchange.

- Trailhead is our free, gamified, interactive online learning platform, where anyone can become a Trailblazer by learning in-demand skills, including administering our services and developing on the Salesforce Platform.
- Einstein AI is a set of advanced AI capabilities embedded across the entire Salesforce Platform that automatically discovers relevant insights, predicts future behavior, proactively recommends best next actions and automates tasks.
- Salesforce Lightning is a component-based experience, platform and ecosystem that allows customers to create apps fast with clicks, not code.
- IoT is a platform service that allows businesses to use IoT data at scale with tools to create rules-based automation to deliver proactive sales, service and marketing.
- Heroku is an app development Platform-as-a-Service for building mobile and web customer apps.
- Analytics delivers complete, intelligent analytics so customers can explore their business data, uncover new insights, make smarter decisions and take action from any device.
- AppExchange is an enterprise cloud marketplace that allows customers to extend the Salesforce Platform to every department and every industry with more than 5,000 solutions, 5,000,000 customer installs and 70,000 peer reviews.

**Success Cloud.** We offer professional services to help customers achieve business results faster with Salesforce solutions. Our architects and innovation program teams act as advisors to plan and execute digital transformations for our customers. We provide best-practices based support and adoption programs globally. In addition, we provide more advanced education, including instructor-led and online courses to certify our customers and partners on architecting, administering, deploying and developing our service offerings.

## Business Benefits of Using Our Solution

The key advantages of our solution include, but are not limited to the following:

**Secure, private, scalable and reliable.** Our services have been designed to provide our customers with 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 transmission over the Internet, which we monitor, test and update on an ongoing basis. We built and maintain a multi-tenant application architecture that has been designed to enable our services to scale securely, reliably and cost effectively considering, among other things, the *Framework for Improving Critical Infrastructure Cybersecurity* issued by the National Institute of Standards and Technology, which assembles standards, guidelines and practices. 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. Our cloud services have received an extensive set of third-party data protection compliance certifications and attestations across geographical regions and industries, demonstrating our unwavering commitment to customer trust.

**Rapid deployment and lower total cost of ownership.** Our services 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. We enable customers to achieve 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. We further reduce the total cost of ownership of our cloud services over the subscription term by delivering multiple releases per year which automatically introduce new features and functionality, while preserving previous customizations and integrations that minimize additional customer engineering investment for compatibility.

**Ease of integration and configuration.** Our customers and partners 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 solutions 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 Salesforce Platform API to move customer-related data from custom-developed and packaged applications into our services on a periodic basis to provide greater visibility into their activities. Administrators, developers and business users can also take advantage of our custom-branded tool sets with point-and-click ease to develop reusable components to tailor and extend the CRM experience with AI, IoT data and content.

**Ease of use.** We have designed our solutions to be intuitive and easy to use. Our solutions contain many modern and recognizable tools and features that are similar to popular consumer websites, which provide a more familiar user experience than traditional enterprise software. As a result, our users can often use and gain benefit from our solutions with minimal training.

**Rapid development of apps.** 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 configure our applications to suit their specific needs and also support a variety of programming languages so developers can code complex apps spanning multiple business processes. 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. Developers can create, test and support their apps on the Salesforce Platform and make their apps accessible for a subscription fee to customers. With millions of installations of third-party developed apps, the AppExchange demonstrates the growing Salesforce ecosystem.

**Continuous innovation.** We release hundreds of new features to all of our customers multiple times a year. Our metadata-driven, multi-tenant cloud enables every customer to run their business on the latest release without disruption. We readily embrace the ideas and opinions of our Trailblazer community,

comprised of customers, innovators, technology disruptors and global shapers, through our Ideas Exchange, which is a forum to provide feedback and suggest new features for future service releases. Because we deploy all upgrades on our servers, new features and functionality automatically become part of our service on the upgrade release date, benefiting all of our customers immediately.

**Positive environmental impact.** Our multi-tenant cloud computing model has a much smaller environmental footprint than traditional Information Technology (“IT”) hardware and software. When organizations move business applications to Salesforce, they can significantly reduce their energy use and carbon footprint compared to traditional on-premises solutions.

## **Our Growth Strategy**

We invest for future growth by focusing on the following key priorities:

**Cross selling and upselling.** We see significant opportunity to deepen our relationships with our existing customers. As our customers realize the benefits of our services, we aim to upgrade the customer experience with premium editions and additional subscriptions by targeting new functional areas and business units, ultimately becoming our customers’ trusted advisors, inspiring enterprise-wide digital transformation and accelerating strategic engagements through direct discussions with the highest levels of our customers’ executive management.

**Extending existing service offerings.** We offer multiple editions of our service offerings at different price points to meet the needs of customers of different sizes and we have designed our solutions to accommodate new features and functionality. We intend to continue to extend all editions of our service offerings with new features, functions and increased security through our own development, acquisitions and partnerships. Over the past year, for example, we have invested heavily in the AI capabilities of Einstein, which allows users of our products to deliver more predictive customer experiences, as well as innovations like Lightning and Trailhead that elevate the entire platform.

**Reducing customer attrition.** Our goal is to have all of our customers renew their subscriptions prior to the end of their contractual terms. We run customer success and other related programs in an effort to secure renewals of existing customers.

**Expanding and strengthening the partner ecosystem.** We continue to work with strategic system integrators (SIs) and independent software vendors (ISVs) to reach new markets and industries, offer a variety of solutions and apps through the AppExchange, and address the business requirements of both current and future customers.

**International expansion.** We continue to increase our investment in our international go-to-market resources, operations and infrastructure to deliver the highest quality service to our customers around the world.

**Targeting vertical industries.** To meet the needs of our customers in certain industries, we also provide solutions specifically built for certain vertical industries, such as financial services, healthcare and public sector.

**Expanding into new horizontal markets.** As part of our growth strategy, which is driven both organically and through acquisitions, we are delivering innovative solutions in new categories, including analytics, commerce and IoT.

**Extending go-to-market capabilities.** We believe that our offerings provide significant value for businesses of any size. We will continue to pursue businesses of all sizes in top industries and major regions globally, 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 solutions around the globe.

**Ensuring strong customer adoption.** We believe that we have the people, processes and proven innovation to help companies transform successfully. We have free, curated resources such as Trailhead to help companies of every size get up to speed, as well as advisory services, technical architects and business strategists to enable and accelerate digital transformation.

**Encouraging the development of third-party applications on our cloud computing platform.** The Salesforce Platform enables customers, ISVs and third-party developers to create and deliver cloud-based 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 or sold directly by software vendors. We believe our ecosystem of developers and software vendors will address the business requirements of both current and future customers.

In addition to the key elements of our business strategy described above, from time to time, we evaluate opportunities to acquire or invest in complementary businesses, services, technologies and intellectual property rights. This evaluation resulted in our acquisition of several companies in the past few years.

### **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. This approach allows us to spread the cost of delivering our services across our user base and scale our business faster than traditional software vendors while focusing our resources on building new functionality.

We provide the majority of our services to our customers from infrastructure designed and operated by us but secured within third-party data center facilities located in the United States, United Kingdom, Germany, France, Japan and other countries. These third-party data center operators provide space, physical security, continuous power and cooling. In combination with these third-party data center facilities, we also provide our services via cloud computing platform partners who offer Infrastructure as a Service, including servers, storage, databases and networking. The use of cloud computing platform partners provides us flexibility to service customers in new and emerging regions and those with in-country data privacy requirements, as well as to support acquired companies.

Our technology and product efforts are focused on improving and enhancing the features, functionality, performance, availability and security of our existing service offerings as well as developing new features, functionality and services. Performance, functional depth, security and the usability of our solutions influence our technology decisions and product direction.

### **Sources of Revenue**

For revenue reporting purposes, we group all of our service offerings into four major categories: Sales Cloud, Service Cloud, Salesforce Platform and Other, and Marketing and Commerce Cloud. Our subscription and support revenues are disaggregated into these four core offerings. For a more detailed discussion, see the “Revenue by Cloud Service Offering” discussion in Management’s Discussion and Analysis.

We derive our revenues primarily from subscription and support fees for our services. We also derive revenues from related professional services via the Success Cloud.

We recognize subscription and support revenue ratably over the contract term, beginning on the commencement date of each contract. We enter into professional services contracts that are on a time and materials, fixed fee or subscription basis. We recognize revenue as the services are rendered for time and

materials contracts, when the milestones are achieved and accepted by the customer or on a proportional performance basis for fixed price contracts or ratably over the contract term for subscription professional services.

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. Our fourth quarter has historically been our strongest quarter for new business and renewals, and our first quarter is generally our largest collections and operating cash flow quarter. For a more detailed discussion, see the “Seasonal Nature of Deferred Revenue, Accounts Receivable and Operating Cash Flow” discussion in Management’s Discussion and Analysis.

## **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 2018, 2017 or 2016.

## **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 that is either included in a premium offering or sold 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.

## **Sales and Marketing**

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.

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 other partners. In return, we typically pay these partners a fee based on the first-year subscription revenue generated by the customers whom they refer. We continue to invest in developing additional distribution channels for our subscription service.

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. We focus our marketing activities on the cities and countries with the largest market opportunity.

Our primary marketing activities include:

- Multi-channel marketing campaigns that span email, social, web and more, which align to a broader customer journey;
- Customer events of all sizes to create customer and prospect awareness, including proprietary events such as Dreamforce and World Tours, as well as participation in trade shows and industry events;
- Press and industry analyst relations to garner third-party validation and generate positive coverage for our company, offerings and value proposition;
- Content marketing and engagement on all of the major social channels;
- Search engine marketing and advertising to drive traffic to our web properties;
- Partner co-marketing activities with global and regional implementation partners;
- Web site development to engage and educate prospects and generate interest through product information and demonstrations, case studies, white papers and marketing collateral;
- Customer testimonials;
- Cultivating a community of Trailblazers who embrace our Company values and evangelize our offerings;
- Tools that enable our sales organization to more effectively convert leads into customers;
- Event sponsorships; and
- Primary real estate signage.

We organize our sales and marketing programs by geographic regions, such as 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 for fiscal 2018 comes from customers outside of the Americas.

## **Competition**

The market for our service offerings is highly competitive, rapidly evolving and fragmented, and subject to changing technology, shifting customer needs and frequent introductions of new products and services.

Our current competitors include:

- Vendors of packaged business software, as well as companies offering enterprise apps delivered through on-premises offerings from enterprise software application vendors and cloud computing application service providers, either individually or with others;
- Software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- Internally developed enterprise applications (by our potential customers' IT departments);
- Marketing vendors, which may be specialized in advertising, targeting, messaging, or campaign automation;
- E-commerce solutions from emerging cloud-only vendors and established on-premises vendors;
- Traditional platform development environment companies and cloud computing development platform companies who may develop toolsets and products that allow customers to build new apps that run on the customers' current infrastructure or as hosted services;
- IoT platforms from large companies that have existing relationships with hardware and software companies; and
- AI solutions from new startups and established companies.

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.

### **Strategic Investments**

Since 2009, we have been investing in early- to late-stage technology and professional cloud service companies across the globe to support our key business initiatives, which include, among other things, extending the capabilities of our platform and service offerings, increasing the ecosystem of enterprise cloud companies and partners, accelerating the adoption of cloud technologies and creating the next-generation of mobile applications and connected products. Our minority investments in over 200 companies as of January 31, 2018 also help us stay connected with the rapid pace of innovation that is currently occurring within the technology industry. In some cases, we have acquired companies in which we have previously invested. Due to the inherent risk in investing, our individual investments are subject to a risk of partial or total loss of investment capital.

### **Intellectual Property**

We rely on a combination of trademarks, copyrights, trade secrets and patents, as well as contractual provisions, to protect our proprietary technology and our brands. 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. We also purchase or license technology that we incorporate into our products or services. At times, we make select intellectual property broadly available at no or low cost to achieve a strategic objective, such as promoting industry standards, advancing interoperability, fostering open source software or attracting and enabling our external development community. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and business methods, we believe, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms. We believe our continuing research and product development are not materially dependent on any single license or other agreement with a third party relating to the development of our products.

### **Employees**

As of January 31, 2018, we had more than 29,000 employees. None of our employees in the United States are represented by a labor union, however, for certain foreign subsidiaries, works councils represent our employees.

### **Available Information**

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, can be obtained free of charge from our website at <http://investor.salesforce.com/about-us/investor/financials/> or by contacting our Investor Relations department at our office address listed above as soon as reasonably practicable following our filing of any of these reports with the SEC. 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](http://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**

***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, or authorized access is blocked or disabled, 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 our customers' and our customers' customers' proprietary and other sensitive data, including financial information and other personally identifiable information. While we have security measures in place, they may be breached as a result of efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states. Our security measures could also be compromised by employee error or malfeasance, which could result in someone obtaining unauthorized access to, or denying authorized access to our IT systems, 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 to gain access to our customers' data, our data or our IT systems.

Because the techniques used to breach, obtain unauthorized access to, or sabotage IT systems change frequently, grow more complex over time, and generally are not recognized until launched against a target, we may be unable to anticipate or implement adequate measures to prevent against such techniques. Our services operate in conjunction with and are dependent on products and components across a broad ecosystem and, as illustrated by the recent Spectre and Meltdown threats, if there is a security vulnerability in one of these components, a security breach could occur. In addition, our internal IT systems continue to evolve and we are often early adapters of new technologies and new ways of sharing data and communicating internally and with partners and customers, which increases the complexity of our IT systems. These risks are mitigated by our ability to maintain and improve business and data governance policies and processes and internal security controls, including our ability to escalate and respond to known and potential risks.

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 servers. 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.

A security breach could expose us to a risk of loss or inappropriate use of proprietary and sensitive data, or the denial of access to this data. A security breach could also 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. Finally, the detection, prevention and remediation of known or potential security vulnerabilities, including those arising from third-party hardware or software may result in additional direct and indirect costs, for example additional infrastructure capacity to mitigate any system degradation that could result from remediation efforts.

***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, proprietary software 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, and experienced disruptions to, our services and new defects or disruptions may occur 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 in augmenting the technologies to meet 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 allowance for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

***Any interruptions or delays in services from third-parties, including data center hosting facilities, cloud computing platform providers and other hardware and software vendors, or from our inability to adequately plan for and manage service interruptions or infrastructure capacity requirements, 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. We also 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, hardware and data from a variety of vendors. Any damage to, or failure of our systems generally, including the systems of our third-party platform providers, could result in interruptions in our services. We have from time to time experienced interruptions in our services and such interruptions may occur in the future. Interruptions in our services may cause us to issue credits or pay penalties, cause customers to make warranty or other claims against us or 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.

We use a range of disaster recovery and business continuity arrangements. For many of our offerings, our production environment and customers' data are replicated in near real-time in a separate facility located elsewhere. Certain offerings, including some offerings of companies added through acquisitions, may be served through alternate facilities or arrangements. 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, as well as local administrative actions, changes to legal or permitting requirements and litigation to stop, limit or delay operation. Despite precautions taken at these facilities, such as disaster recovery and business continuity arrangements, 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.

These hardware, software, data 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.

If we do not accurately plan for our infrastructure capacity requirements and we experience significant strains on our data center capacity, our customers could experience performance degradation or service outages that may subject us to financial liabilities, result in customer losses and harm our business. When we add data centers and add capacity, 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.

***Privacy concerns and laws such as the European Union’s General Data Protection Regulation, 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 over the Internet is evolving, as federal, state and foreign governments continue to adopt new, or modify existing, laws and regulations addressing data privacy and the collection, processing, storage, transfer and use of data. In some cases, new data privacy laws and regulations, such as the European Union’s (“EU”) General Data Protection Regulation that takes effect in May 2018 and an amended Act on the Protection of Personal Information in Japan, impose new obligations directly on Salesforce as both a data controller and a data processor, as well as on many of our customers. These new laws may require us to make changes to our services to enable Salesforce and/or our customers to meet the new legal requirements, and may also increase our potential liability exposure through higher potential penalties for non-compliance. Further, laws such as the European Union’s proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals’ online activities. These new or proposed laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services, require us to take on more onerous obligations in our contracts, restrict our ability to store, transfer 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. For example, ongoing legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the European Economic Area to the United States could result in further limitations on the ability to transfer data across borders, particularly if governments are unable or unwilling to reach new or maintain existing agreements that support cross-border data transfers, such as the EU-U.S. and Swiss-U.S. Privacy Shield framework. Additionally, certain countries have passed or are considering passing laws requiring local data residency. The costs of compliance with, and other burdens imposed by, privacy laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, make it more difficult to meet expectations from or commitments to customers, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at which we close sales transactions, any of which could harm our business.

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 our ability to provide our services globally. Our customers expect us to meet voluntary certification and 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.

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.

***Our efforts to expand our services beyond the CRM market and to develop and integrate 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 a significant portion of our revenue from subscriptions to our CRM enterprise cloud computing application services, and we expect this will continue for the foreseeable future. Our efforts to expand our services beyond the CRM market may not succeed and may reduce our revenue growth rate. The markets for certain of our offerings remain relatively new and it is uncertain whether our efforts, and related investments, will ever result in significant revenue for us. Further, the introduction of significant platform changes and upgrades, including our conversion to our new Lightning platform, and 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.

Additionally, if we fail to anticipate or identify significant Internet-related and other technology trends and developments early enough, or if we do not devote appropriate resources to adapting to such trends and developments, our business could be harmed.

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 could 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 by customers, administrators and developers, as well as our ability to seamlessly integrate all of our service offerings. Failure in this regard may significantly impair our revenue growth as well as negatively impact our operating results if the additional costs are not offset by additional revenues. In addition, because our services are designed to operate over various network technologies and on a variety of mobile devices, operating systems and computer 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, app development platform 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.

***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, platforms 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 customer acceptance of multiple platforms on a temporary or permanent basis;
- augmenting the acquired technologies and platforms to the levels that are consistent with our brand and reputation;
- increasing or maintaining the security standards for acquired 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;
- additional stock based compensation; the loss of acquired deferred revenue and unbilled deferred revenue;
- delays in customer purchases due to uncertainty related to any acquisition;
- ineffective or inadequate controls, procedures and policies at the acquired company may negatively impact our results of operations;
- challenges caused by integrating operations over distance, and across different languages and cultures;
- currency and regulatory risks associated with foreign countries and potential additional cybersecurity and compliance risks resulting from entry into new markets; and
- the tax effects of any such acquisitions.

Any of these risks could harm our business. In addition, to facilitate these acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all, which may affect our ability to complete subsequent acquisitions or investments, and which may affect the risks of owning our common stock. For example, 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.

***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 and results. If in the future we are unable to achieve or maintain industry-specific certifications or other requirements or standards relevant to our customers, it may harm our business and adversely affect our results.

Further, in some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. The interpretation of many of these statutes, regulations, and rulings is evolving in the courts and administrative agencies and an inability to comply may have an adverse impact on our business and results. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business. For example, there are various statutes, regulations, and rulings relevant to the direct email marketing and text-messaging industries, including the Telephone Consumer Protection Act (TCPA) and related Federal Communication Commission (FCC) orders, which impose significant restrictions on the ability to utilize telephone calls and text messages to mobile telephone numbers as a means of communication, when the prior

consent of the person being contacted has not been obtained. We are, and may in the future be, subject to one or more class-action lawsuits, as well as individual lawsuits, containing allegations that one of our businesses or customers violated the TCPA. A determination that we or our customers violated the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

***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. 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.

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. If we fail to successfully scale our operations and increase productivity, we may be unable to execute our business plan and the fair value of our common stock could decline.

***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. 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.

Our current competitors include:

- Vendors of packaged business software, as well as companies offering enterprise apps delivered through on-premises offerings from enterprise software application vendors and cloud computing application service providers, either individually or with others;
- Software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- Internally developed enterprise applications (by our potential customers' IT departments);
- Marketing vendors, which may be specialized in advertising, targeting, messaging, or campaign automation;

- E-commerce solutions from emerging cloud-only vendors and established on-premises vendors;
- Traditional platform development environment companies and cloud computing development platform companies who may develop toolsets and products that allow customers to build new apps that run on the customers' current infrastructure or as hosted services;
- IoT platforms from large companies that have existing relationships with hardware and software companies; and
- Artificial intelligence solutions from new startups and established companies.

Some of our current and potential competitors may have competitive advantages, such as greater name recognition, longer operating histories, significant installed bases, broader geographic scope, 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. We also experience competition from smaller, younger competitors that may be more agile in responding to customers' demands. 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, which could negatively impact our future sales and harm our business.

***Our ability to deliver our services is dependent on the development and maintenance of the infrastructure of the Internet by third parties.***

The Internet's infrastructure is comprised of many different networks and services that are highly fragmented and distributed by design. This infrastructure is run by a series of independent third-party organizations that work together to provide the infrastructure and supporting services of the Internet under the governance of the Internet Corporation for Assigned Numbers and Names (ICANN) and the Internet Assigned Numbers Authority (IANA), now under the stewardship of ICANN.

The Internet has experienced a variety of outages and other delays as a result of damages to portions of its infrastructure, denial-of-service attacks or related cyber incidents, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage or result in fragmentation of the Internet, resulting in multiple separate Internets. These scenarios are not under our control and could reduce the availability of the Internet to us or our customers for delivery of our Internet-based services. Any resulting interruptions in our services or the ability of our customers to access our services could result in a loss of potential or existing customers and harm our business.

In addition, certain countries have implemented (or may implement) legislative and technological actions that either do or can effectively regulate access to the Internet, including the ability of Internet Service Providers to limit access to specific websites or content. These actions could potentially limit or interrupt access to our services from certain countries or Internet Service Providers, impede our growth, result in the loss of potential or existing customers and harm our business.

***We are subject to risks associated with our strategic investments. Other-than-temporary impairments in the value of our investments could negatively impact our financial results.***

We invest in early-to-late stage companies for strategic reasons and to support key business initiatives, and may not realize a return on our strategic investments. Many such companies generate net losses and the market for their products, services or technologies may be slow to develop, and, therefore, are dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations.

The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. The capital markets for public offerings and acquisitions are dynamic and the likelihood of liquidity events for the companies we have invested in could significantly worsen. Further, 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 value, we may be required to record an other-than-temporary impairment, which could be material. We have in the past written off the full value of specific investments. Similar situations could occur in the future and negatively impact our financial results and may harm our business and cause our stock price to decline. All of our investments are subject to a risk of a partial or total loss of investment capital.

***Our quarterly results are likely to fluctuate, which may cause the value of our common stock to 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 is 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 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;
- our ability to realize benefits from strategic partnerships, acquisitions or investments;
- 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;
- variations in the revenue mix of our services and growth rates of our cloud subscription and support offerings;
- changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;
- changes in payment terms and the timing of customer payments and payment defaults by customers;
- 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 and timing, new business linearity between quarters and within a quarter and fluctuations due to foreign currency movements, all of which may impact implied growth rates;
- the seasonality of our customers' businesses, especially Commerce Cloud customers, including retailers and branded manufacturers;
- changes in foreign currency exchange rates such as with respect to the British Pound;

- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the number of new employees;
- the timing of commission, bonus, and other compensation payments to employees;
- 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;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- income tax effects, including the impact of changes in U.S. federal and state and international tax laws applicable to corporate multinationals;
- 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;
- technical difficulties or interruptions in our services;
- 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;
- changes in the fair value of our strategic investments in early-to-late stage public and privately held companies, which could be material in a particular quarter;
- equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes at the election of the note holders;
- the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards on a straight-line basis over their vesting schedules;
- evolving regulations of cloud computing and cross-border data transfer restrictions and similar regulations;
- regulatory compliance costs; and
- the impact of new accounting pronouncements and associated system implementations, for example, the adoption of Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), which includes the accounting for revenue recognized and capitalized costs.

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. If we fail to meet or exceed operating results expectations or if securities analysts and investors have estimates and forecasts of our future performance that are unrealistic or that we do not meet, the market price of our common stock could decline. In addition, 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.



***If we experience significant fluctuations in our rate of anticipated growth and fail to balance our expenses with our revenue forecasts, our business could be harmed and the market price of our common stock could decline.***

Due to the pace of change and innovation in enterprise cloud computing services, the unpredictability of future general economic and financial market conditions, the impact of foreign currency exchange rate fluctuations, the growing complexity of our business, including the use of multiple pricing and packaging models, and our increasing focus on enterprise cloud computing services, we may not be able to realize our projected revenue growth plans. 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 deferred commissions, data center contracts or office leases, so it may not be possible to reduce costs in a timely manner, or at all, 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 and revenue growth rates may not be sustainable and may decline in the future, and we may not be able to provide continued operating margin expansion, which could harm our business and cause the market price of our common stock to decline.

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

We sell our services throughout the world and are subject to risks and challenges associated with international business. We intend to continue to expand our international sales efforts. The risks and challenges associated with sales to customers outside the United States or those that can affect international operations generally, include:

- localization of our services, including translation into foreign languages and associated expenses;
- regulatory frameworks or 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;
- evolving domestic and international tax environments;
- liquidity issues or political actions by sovereign nations, which could result in decreased values of these balances or potential difficulties protecting our foreign assets or satisfying local obligations;
- foreign currency fluctuations and controls, which may make our services more expensive for international customers and could add volatility to our operating results;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data transfer, storage and protection, and industry-specific laws and regulations, including rules related to compliance by our third-party resellers;
- 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;
- 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. The above factors may also negatively impact our ability to successfully expand into emerging market countries, where we have little or no operating experience, where it can be costly and challenging to establish and maintain operations, including hiring and managing required personnel, and difficult to promote our brand, and where we may not benefit from any first-to-market advantage or otherwise succeed.

***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 impact 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 could decline and our business may 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 contractual 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. It is difficult to 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, mix of customer base, decreases in the number of users at our customers, competition, pricing increases or 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 customers do not renew their subscriptions, do not purchase additional features or enhanced subscriptions or if attrition rates increase, our business could be harmed.

***If third-party developers and providers do not continue to embrace our technology delivery model and enterprise cloud computing services, or if our customers seek warranties from us for third-party applications, integrations, data and content, our business could be harmed.***

Our success depends on the willingness of a growing community of third-party developers and technology providers to build applications and provide integrations, data and content that are complementary to our services. Without the continued development of these applications and provision of such integrations, data and content, both current and potential customers may not find our services sufficiently attractive, which could impact future sales. 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, integrations, data and content, even though not developed or sold by us, which may expose us to potential claims, liabilities and obligations, all of which could harm our business.

***We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows from changes in the value of the U.S. Dollar versus local currencies and the Euro versus the Pound Sterling.***

We conduct our business in the following regions: the Americas, Europe, and Asia Pacific. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, additional headcount in foreign locations, and operating in countries where the functional currency is the local currency. Specifically, our results of operations and cash flows are subject to fluctuations primarily in British Pound Sterling, Euro, Japanese Yen, Canadian Dollar and Australian Dollar against the U.S. Dollar as well as the Euro against the Pound Sterling. These exposures may change over time as business practices evolve, economic conditions change and evolving tax regulations come into effect. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Additionally, global political events, including the United Kingdom's 2016 vote in favor of exiting the European Union, or "Brexit," and similar geopolitical developments, have caused global economic uncertainty, which could amplify the volatility of currency fluctuations. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings. Although we attempt to mitigate some of this volatility and related risks through foreign currency hedging, our hedging activities are limited and may not effectively offset the adverse financial impacts that may result from unfavorable movements in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

***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 configuration 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, including governmental entities, 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 and governmental entities may demand more configuration, 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, commercial, corporate and securities, labor and employment, class actions, 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.

In addition, we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. Our technologies may be subject to injunction if they are found to infringe the rights of a third-party or we may be required to pay damages, or both. 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.

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.

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 current or future results of operations or cash flows in a particular quarter.

***Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand, cause us to incur significant expenses and harm our business.***

If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, affecting our brand, causing us to incur significant expenses and harming our business. 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 many U.S. patents and pending U.S. and international patent applications, 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 and expense to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. If we fail to protect our intellectual property rights, it could impact our ability to protect our technology and brand. Furthermore, any litigation, whether or not it is resolved in our favor, could result in significant expense to us, cause us to divert time and resources and harm our business.

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

We believe that the brand identities we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Salesforce 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 securely, reliably and in a manner that enhances our customers' success. In order to maintain and enhance our brands, we may be required to make substantial investments that may later prove to be unsuccessful. In addition, positions we take on social issues may be unpopular with some customers or potential customers, which may impact our ability to attract or retain such customers. Our brand is also associated with our public commitments to sustainability and equality, and any perceived changes in our dedication to these commitments could adversely impact our relationships with our customers. In addition, we have secured the naming rights to facilities controlled by third parties, such as office towers and a transit center, and any negative events or publicity arising from these facilities could adversely impact our brand. If we fail to maintain and enhance our brands, or if we incur excessive expenses in our efforts to do so, our business, operating results and financial condition may be materially and adversely affected.

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

Our success depends substantially upon the continued services of our executive officers and other key members of management, particularly our Chief Executive Officer. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Such changes in our executive management team may be disruptive to our business. We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our 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, data scientists 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. These difficulties may be amplified by evolving restrictions on immigration, travel or availability of visas for skilled technology workers. 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.

In addition, we believe in the importance of our corporate culture of Ohana, which fosters dialogue, collaboration, recognition and a sense of family. As our organization grows and expands globally, and as employees' workplace expectations develop, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our ability to attract and retain employees and negatively impact our future growth.

***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 service offerings 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 impact 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 financial 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 of stock-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes and effects from acquisitions.

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 accounting principles, and changes in U.S. federal and state or international tax laws applicable to corporate multinationals. For example, the 2017 U.S. Tax Cuts and Jobs Act ("Tax Act") significantly changed income tax law that affect U.S. corporations. We made significant judgments and assumptions in the interpretation of this new law and in our calculations of the provisional amounts reflected in our financial statements. The U.S. Treasury Department, the Internal Revenue Service ("IRS"), and other standard-setting bodies may issue guidance on how the provisions of the Tax Act will be applied or otherwise administered, and additional accounting guidance or interpretations may be issued in the future that is different from our current interpretation. As we further analyze the new law, and collect relevant information to complete our computations of the related accounting impact, we may make adjustments to the provisional amounts that could materially affect our provision for income taxes in the period in which the adjustments are made. In addition, other countries are considering fundamental tax law changes. Any changes in taxing jurisdictions' administrative interpretations, decisions, policies and positions could also impact our tax liabilities.

We may also be subject to additional tax liabilities and penalties due to changes in non-income based 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 substantial level of debt, including the 0.25% convertible senior notes we issued in March 2013 (“0.25% Senior Notes”) due April 1, 2018, the loan we assumed when we purchased an office building located at 50 Fremont Street in San Francisco, California (“50 Fremont”), the \$500.0 million term loan to finance our acquisition of Demandware, due July 2019 (the “term loan”) and capital lease arrangements. Additionally, we have significant contractual commitments in operating lease arrangements, which are not reflected on our consolidated balance sheets. In addition, we have a financing obligation for a leased facility of which we are deemed the owner for accounting purposes. In July 2016, we amended and restated our revolving credit facility under which we can draw down up to \$1.0 billion. Maintenance of our indebtedness and contractual commitments and any additional issuances of indebtedness could:

- 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 and term loan 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 or contractual obligations resulting from our leases. 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. 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.

New lease accounting guidance will require that we record operating lease activity on our consolidated balance sheet no later than fiscal 2020, which will result in an increase in both our assets and financing obligations. The implementation of this guidance may impact our ability to obtain the necessary financing from financial institutions at commercially viable rates or at all as this new guidance will result in a higher financing obligation on our consolidated balance sheet.

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

Our overall performance depends in part on worldwide economic and geopolitical 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 economic conditions can arise suddenly and the full impact of such conditions can remain uncertain. In addition, geopolitical developments can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. Moreover, these conditions can 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 future sales and 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. Our corporate headquarters, and a significant portion of our research and development activities, 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.

***Climate change may have a long-term impact on our business.***

While we seek to partner with organizations that mitigate their business risks associated with climate change, we recognize that there are inherent climate related risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices, vendors, customers or other stakeholders, is a priority. Any of our primary locations may be vulnerable to the adverse effects of climate change. Climate related events have the potential to disrupt our business and may cause us to experience losses and additional costs to resume operations.

***Current and future accounting pronouncements and other financial reporting standards, especially but not only concerning revenue recognition, cost capitalization and lease accounting, may negatively impact our financial results.***

We regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies, particularly concerning revenue recognition, the capitalized incremental costs to obtain a customer contract and lease accounting, to alter our operational policies and to implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or to restate our published financial statements. Such changes may have an adverse effect on our business, financial position, and operating results, or cause an adverse deviation from our revenue and operating profit target, which may negatively impact our financial results.

***We may be subject to risks related to government contracts and related procurement regulations.***

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration and performance. We may be



subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause. Any of these risks related to contracting with governmental entities could adversely impact our future sales and operating results

***We are subject to governmental export and import controls that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.***

Our solutions are subject to export and import controls, including the Commerce Department's Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Control. If we fail to comply with these U.S. export control laws and import laws we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. Obtaining the necessary authorizations, including any required license, may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being provisioned or provided to U.S. sanctions targets, our solutions could be provisioned to those targets or provided by our resellers despite such precautions. Any such sales could have negative consequences, including government investigations, penalties and reputational harm. Changes in our solutions or changes in export and import regulations may create delays in the introduction, sale and deployment of our solutions in international markets or prevent the export or import of our solutions to certain countries, governments or persons altogether. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely adversely affect our business, financial condition and results of operations.

### **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 historically 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, both billed and unbilled, year-over-year growth rates for individual core service offerings and other financial metrics and non-financial metrics, such as transaction usage volumes and Einstein predictions, and how those results compare to analyst expectations;
- variations in, and limitations of, the various financial and other metrics and modeling used by analysts in their research and reports about our business;
- forward-looking guidance to industry and financial analysts related to, for example, future revenue and earnings per share;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;

- the coverage of our common stock by the financial media, including television, radio and press reports and blogs;
- 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 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 the notes, 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 of the notes 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.

***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 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 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 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.

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, 2018, our executive and principal offices for sales, marketing, professional services and development consist of approximately 1.8 million square feet of leased and owned property in San Francisco. Of this total, we lease and occupy approximately 1.1 million square feet and own and occupy a majority of the approximately 820,000 square feet of total owned space at 50 Fremont Street. Of the total space in San Francisco, 1.2 million square feet is concentrated in our urban campus, which includes 50 Fremont Street, 350 Mission Street, and Salesforce Tower located at 415 Mission Street (“Salesforce Tower”), collectively defined as our “Urban Campus”. We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space in a number of countries in Europe, North America, Asia, South America, Africa and Australia for our international operations, primarily for local sales and professional services personnel.

In addition, in April 2014, we entered into a lease agreement for approximately 882,000 rentable square feet in Salesforce Tower. The lease payments associated with the lease will be approximately \$774.1 million over the 15.5 year term of the lease, beginning in our second quarter of fiscal 2018. We currently occupy 97,000 square feet of this property, and we have included this amount in the total leased space in San Francisco stated above.

We operate data centers in the U.S., Europe and Asia pursuant to various co-location lease arrangements.

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 or regulatory proceedings, claims, or purported class actions related to alleged infringement of third-party patents and other intellectual property rights, or alleged violation of commercial, corporate and securities, labor and employment, wage and hour, or other laws or regulations. We have been, and may in the future be put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement.

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.

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. The outcomes of our legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, we may not be able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to any contingencies, and our estimates may not prove to be accurate.

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 a given dispute or other contingency, an unfavorable resolution could materially affect our current or future results of operations or cash flows, or both, in a particular quarter.

See also Note 15, "Legal Proceedings and Claims" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

#### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding our current executive officers as of March 1, 2018 (in alphabetical order):

<u>Name</u>	<u>Age</u>	<u>Position</u>
Joe Allanson .....	54	Chief Accounting Officer and Corporate Controller
Marc Benioff .....	53	Chairman of the Board of Directors and Chief Executive Officer
Keith Block .....	56	Vice Chairman, President and Chief Operating Officer
Alexandre Dayon .....	50	President and Chief Strategy Officer
Parker Harris .....	51	Co-Founder and Chief Technology Officer
Mark Hawkins .....	58	President and Chief Financial Officer
Maria Martinez .....	60	President, Global Customer Success and Latin America
Cindy Robbins .....	45	President and Chief People Officer
Bret Taylor .....	37	President and Chief Product Officer
Amy Weaver .....	50	President, Legal and General Counsel

*Joe Allanson* has served as our Chief Accounting Officer and Corporate Controller since February 2014. Prior to that, Mr. Allanson served as our Senior Vice President, Chief Accountant and Corporate Controller since July 2011, Senior Vice President, Corporate Controller from July 2007 to July 2011, 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 also serves on the Board of Trustees of the University of San Francisco. Mr. Allanson graduated from Santa Clara University with a B.S. in Accounting.

*Marc Benioff* is Chairman, Chief Executive Officer and co-founder of Salesforce and a pioneer of cloud computing. Under Mr. Benioff's leadership, Salesforce has become the fastest-growing top-five enterprise software company and the #1 CRM provider globally. Mr. Benioff was named Innovator of the Decade by Forbes, ranked #3 on Fortune's 2017 "Best Businessperson of the Year" list, and recognized as one of the World's 50 Greatest Leaders by Fortune and 20 Best-Performing CEOs by Harvard Business Review. A member of the World Economic Forum ("WEF") Board of Trustees, Mr. Benioff serves as the inaugural Chair of WEF's Forum Center for the Fourth Industrial Revolution in San Francisco. Mr. Benioff also serves as Chair of Salesforce.org. Mr. Benioff served as a director of Cisco Systems, Inc. from 2012 to 2014. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is on its Board of Trustees.

*Keith Block* has served as our Vice Chairman, President and as a Director since joining Salesforce in June 2013, and has additionally served as our Chief Operating Officer since February 2016. 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 currently serves on the World Economic Forum's Information Technology Community as a Governor, the Board of Trustees for Carnegie-Mellon University, the President's Advisory Council at Carnegie-Mellon University Heinz Graduate School and the Board of Trustees at the Concord Museum. 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 and Chief Strategy Officer since November 2017. Prior to that, he served as our President and Chief Product Officer since February 2016, President, Products from March

2014 to February 2016, 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* has served as our Co-Founder and Chief Technology Officer since September 2016. Mr. 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 Salesforce, 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 President and Chief Financial Officer and Principal Financial Officer since August 2017. Prior to that, he served as our Chief Financial Officer, Principal Financial Officer and Executive Vice President since August 2014. Prior to Salesforce, Mr. Hawkins 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 currently serves as a director of Plex Systems, Inc., where he is the Chairman of the Audit Committee, and SecureWorks, Inc., where he is also a member of the Compensation Committee and the Chairman of the Audit Committee. Mr. Hawkins also 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.

*Maria Martinez* has served as our President, Global Customer Success and Latin America since March 2017. Prior to that, she served as our President, Customer Success and Latin America since March 2016, President, Sales and Customer Success from February 2013 to March 2016, Executive Vice President, Chief Growth Officer from February 2012 to February 2013 and 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 currently serves as a director of Plantronics, Inc., where she is also a member of the Nominating and Corporate Governance Committee and the Strategy Committee. Ms. Martinez received a B.S. in Electrical Engineering from the University of Puerto Rico and an M.S. in Computer Engineering from Ohio State University.

*Cindy Robbins* has served as our President, Chief People Officer since August 2017. Prior to that, she served as our Executive Vice President, Global Employee Success since July 2015, Senior Vice President, Global Employee Success from October 2014 to June 2015 and Vice President, Global Employee Success from November 2013 to September 2014. Prior to that, Ms. Robbins held various other positions in Executive Recruiting, Sales and Marketing at the Company since 2006. Ms. Robbins holds a B.S. in Political Science from Santa Clara University.

*Bret Taylor* has served as our President and Chief Product Officer since November 2017. Prior to that, he served as our President, Quip since August 2016. Mr. Taylor joined Salesforce through the acquisition of Quip, Inc., where he was a co-founder and served as CEO since September 2012. Previously, Mr. Taylor served as Chief Technology Officer of Facebook, Inc. from August 2009 to July 2012 and Chief Executive Officer of

FriendFeed, Inc., a social network, from October 2007 to August 2009. From June 2007 to September 2007, Mr. Taylor served as an entrepreneur-in-residence at Benchmark, a venture capital firm. Prior to June 2007, Mr. Taylor served as Group Product Manager at Google Inc. Mr. Taylor currently serves as a director of Twitter, Inc., where he is also a member of the Compensation Committee. He has also served on the Board of Directors of TASER International, Inc., a protection technologies company, since June 2014. Mr. Taylor holds a B.S. and an M.S. in Computer Science from Stanford University.

*Amy Weaver* has served as our President, Legal and General Counsel since February 2017. Prior to that, she served as our Executive Vice President and General Counsel since July 2015 and our Senior Vice President and General Counsel from October 2013 to July 2015. Prior to Salesforce, Ms. Weaver served as Executive Vice President and General Counsel at Univar Inc. from December 2010 to June 2013. Previously, Ms. Weaver was Senior Vice President and Deputy General Counsel at Expedia, Inc. and before that she practiced law at Cravath, Swaine & Moore LLP and Perkins Coie LLP. Ms. Weaver also served as a clerk on the U.S. Court of Appeals, Ninth Circuit and as a legislative assistant to a member of the Hong Kong Legislative Council. Ms. Weaver holds a B.A. in Political Science from Wellesley College and a J.D. from Harvard Law School.



## 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, based on the last daily sale, as reported by the New York Stock Exchange.

	<u>High</u>	<u>Low</u>
Fiscal year ending January 31, 2018		
First quarter .....	\$ 86.12	\$78.58
Second quarter .....	\$ 91.39	\$86.00
Third quarter .....	\$102.34	\$87.63
Fourth quarter .....	\$113.91	\$99.85
Fiscal year ending January 31, 2017		
First quarter .....	\$ 77.27	\$54.05
Second quarter .....	\$ 83.77	\$73.81
Third quarter .....	\$ 81.63	\$68.42
Fourth quarter .....	\$ 79.10	\$68.41

#### 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, 2018, there were 498 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," to be filed within 120 days of our January 31, 2018 fiscal year end.

#### Outstanding Convertible Senior Notes due April 2018 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. As of January 31, 2018, the 0.25% Senior Notes were convertible with \$1.03 billion outstanding and as of the date of this filing, \$196.7 million had been converted or have requested conversion.

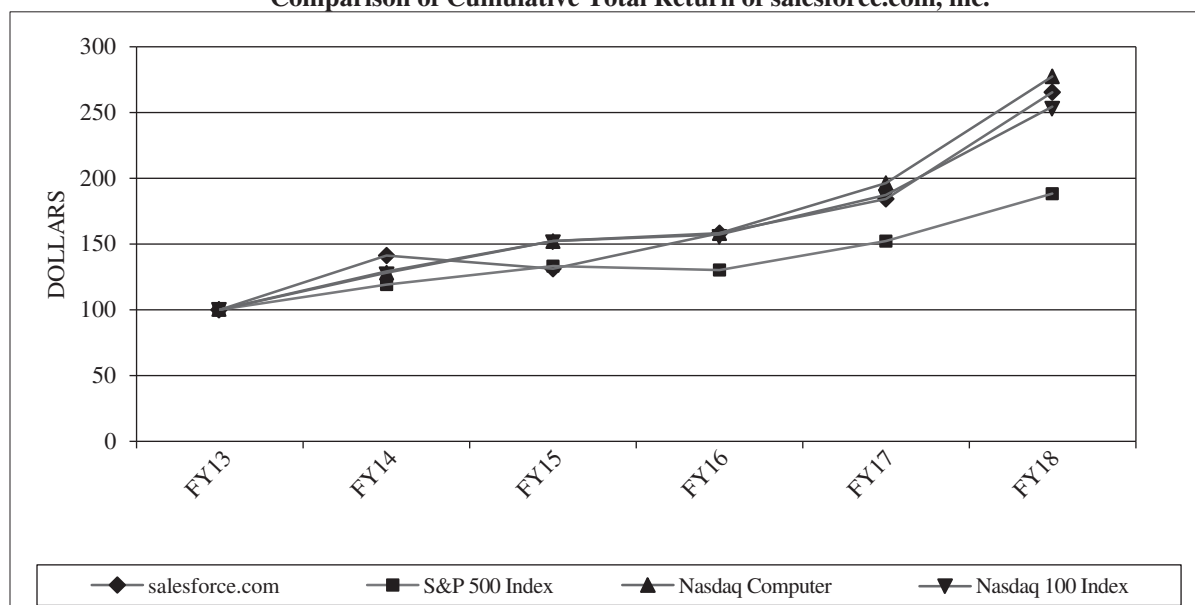
#### Stock Performance Graph

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.

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 (“S&P 500 Index”), Nasdaq Computer & Data Processing Index (“Nasdaq Computer”) and the Nasdaq 100 Index (added this year for additional reference) for each of the last five fiscal years ended January 31, 2018, assuming an initial investment of \$100. Data for the S&P 500 Index, Nasdaq Computer and Nasdaq 100 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.

**Comparison of Cumulative Total Return of salesforce.com, inc.**



	<u>1/31/2013</u>	<u>1/31/2014</u>	<u>1/31/2015</u>	<u>1/31/2016</u>	<u>1/31/2017</u>	<u>1/31/2018</u>
salesforce.com .....	\$100.00	\$141.00	\$131.00	\$158.00	\$184.00	\$265.00
S&P 500 Index .....	100.00	119.00	133.00	130.00	152.00	188.00
Nasdaq Computer .....	100.00	128.00	152.00	158.00	196.00	277.00
Nasdaq 100 Index .....	100.00	129.00	152.00	157.00	187.00	254.00

### Recent Sales of Unregistered Securities

In connection with the acquisition of MetaMind, Inc., the Company issued 1,559 shares of Company common stock on January 2, 2018. This issuance was made in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”): Section 4(a)(2) of the Securities Act, Regulation D promulgated under the Securities Act, and Regulation S promulgated under the Securities Act.

### 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 2018, 2017 and 2016, and the selected consolidated balance sheet data as of January 31, 2018 and 2017 are derived from, and are qualified by reference to, the audited consolidated financial statements that are included in this Form 10-K. The consolidated statement of operations

data for fiscal 2015 and 2014 and the consolidated balance sheet data as of January 31, 2016, 2015 and 2014 are derived from audited consolidated financial statements which are not included in this Form 10-K after certain reclassifications were made to conform to the current period presentation described in Note 1 “Summary of Business and Significant Accounting Policies” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

(in thousands, except per share data)	Fiscal Year Ended January 31,				
	2018	2017	2016	2015	2014
<b>Consolidated Statement of Operations</b>					
Revenues:					
Subscription and support . . . . .	\$ 9,710,538	\$7,756,205	\$6,205,599	\$5,013,764	\$3,824,542
Professional services and other . . . . .	769,474	635,779	461,617	359,822	246,461
Total revenues . . . . .	10,480,012	8,391,984	6,667,216	5,373,586	4,071,003
Cost of revenues (1)(2)(3):					
Subscription and support . . . . .	2,033,457	1,617,315	1,241,692	964,608	734,321
Professional services and other . . . . .	740,065	616,724	412,856	324,662	234,107
Total cost of revenues . . . . .	2,773,522	2,234,039	1,654,548	1,289,270	968,428
Gross profit . . . . .	7,706,490	6,157,945	5,012,668	4,084,316	3,102,575
Operating expenses (1)(2):					
Research and development . . . . .	1,553,073	1,208,127	946,300	792,917	623,798
Marketing and sales . . . . .	4,829,291	3,918,027	3,239,824	2,757,096	2,168,132
General and administrative . . . . .	1,088,358	967,563	748,238	679,936	596,719
Operating lease termination resulting from purchase of 50 Fremont . . . . .	0	0	(36,617)	0	0
Total operating expenses . . . . .	7,470,722	6,093,717	4,897,745	4,229,949	3,388,649
Income (loss) from operations . . . . .	235,768	64,228	114,923	(145,633)	(286,074)
Investment income . . . . .	35,848	27,374	15,341	10,038	10,218
Interest expense . . . . .	(86,943)	(88,988)	(72,485)	(73,237)	(77,211)
Other income (expense) (1) . . . . .	17,435	9,072	(15,292)	(19,878)	(4,868)
Gain on sales of land and building improvements . . . . .	0	0	21,792	15,625	0
Gains from acquisitions of strategic investments . . . . .	0	13,697	0	0	0
Income (loss) before benefit from (provision for) income taxes . . . . .	202,108	25,383	64,279	(213,085)	(357,935)
Benefit from (provision for) income taxes . . . . .	(74,630)	154,249	(111,705)	(49,603)	125,760
Net income (loss) . . . . .	\$ 127,478	\$ 179,632	\$ (47,426)	\$ (262,688)	\$ (232,175)
Net income (loss) per share-basic and diluted:					
Basic net income (loss) per share . . . .	\$ 0.18	\$ 0.26	\$ (0.07)	\$ (0.42)	\$ (0.39)
Diluted net income (loss) per share . . .	\$ 0.17	\$ 0.26	\$ (0.07)	\$ (0.42)	\$ (0.39)
Shares used in computing basic net income (loss) per share . . . . .	714,919	687,797	661,647	624,148	597,613
Shares used in computing diluted net income (loss) per share . . . . .	734,598	700,217	661,647	624,148	597,613

(in thousands)	Fiscal Year Ended January 31,				
	2018	2017	2016	2015	2014
(1) Amounts include amortization of purchased intangibles from business combinations, as follows:					
Cost of revenues	\$165,545	\$127,676	\$ 80,918	\$ 90,300	\$109,356
Marketing and sales	121,340	97,601	77,152	64,673	37,179
Other income (expense)	1,433	2,491	3,636	0	0
(2) Amounts include stock-based expenses, as follows:					
Cost of revenues	\$129,954	\$107,457	\$ 69,443	\$ 53,812	\$ 45,608
Research and development	259,838	187,487	129,434	121,193	107,420
Marketing and sales	468,553	388,937	289,152	286,410	258,571
General and administrative	138,668	136,486	105,599	103,350	91,681
(3) Certain reclassifications to fiscal 2017, 2016, 2015 and 2014 balances were made to conform to the current period presentation in the consolidated statement of operations, which include cost of revenues-subscription and support and cost of revenues-professional services and other.					

(in thousands)	As of January 31,				
	2018	2017	2016	2015	2014
<b>Consolidated Balance Sheet Data:</b>					
Cash, cash equivalents and marketable securities (4)	\$ 4,521,705	\$ 2,208,887	\$ 2,725,377	\$ 1,890,284	\$1,321,017
(Negative) working capital (5)	(839,147)	(1,298,639)	90,432	(15,385)	(915,382)
Total assets	21,009,802	17,584,923	12,762,920	10,654,053	9,096,124
Long-term obligations (6)	1,487,921	2,789,330	2,119,160	2,254,086	2,002,311
Accumulated deficit	(337,432)	(464,910)	(653,271)	(605,845)	(343,157)
Total stockholders' equity	9,388,496	7,500,127	5,002,869	3,975,183	3,038,510

- (4) Excludes the restricted cash balance of \$115.0 million as of January 31, 2015.
- (5) The Company considers all its marketable debt securities to be available to support current liquidity needs including those with maturity dates beyond one year, and therefore classifies these securities within current assets on the consolidated balance sheets. For consistency in presentation, working capital in the table above as of January 31, 2016, 2015 and 2014 includes amounts previously reported in Marketable securities, noncurrent. In addition, other reclassifications were made to balances as of January 31, 2017, 2016, 2015 and 2014 to conform to the current period presentation.
- (6) Long-term obligations consists of 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, which was subsequently paid off in fiscal 2016, the loan assumed on 50 Fremont, the term loan entered into in July 2016, and the revolving credit facility entered into in October 2014 and amended in July 2016. At January 31, 2014, the 0.75% notes were convertible and accordingly were classified as a current liability. At January 31, 2015, the 0.75% notes had matured and were no longer outstanding. At January 31, 2018, the 0.25% notes were due in April 2018 and accordingly were classified as a current liability. As of January 31, 2018, a portion of the loan assumed on 50 Fremont was due within the next 12 months and accordingly was classified as a current liability.

## **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 2000, and we have since expanded our service offerings with new editions, features and platform capabilities. Our core mission is to empower our customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things (“IoT”) and artificial intelligence technologies.

Our Customer Success Platform—including sales force automation, customer service and support, marketing automation, digital commerce, community management, industry-specific solutions, analytics, application development, IoT integration, collaborative productivity tools, our AppExchange, which is our enterprise cloud marketplace, and our professional cloud services—provides the tools customers need to succeed in a digital world. Key elements of our strategy include:

- cross sell and upsell;
- extend existing service offerings;
- reduce customer attrition;
- expand and strengthen the partner ecosystem;
- expand internationally;
- target vertical industries;
- expand into new horizontal markets;
- extend go-to-market capabilities;
- ensure strong customer adoption; and
- encourage the development of third-party applications on our cloud computing platform.

We are also committed to a sustainable, low-carbon future, advancing equality and diversity, and fostering employee success. We try to integrate social good into everything we do. All of these goals align with our long-term growth strategy and financial and operational priorities.

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; our ability to maintain a balanced portfolio of products and customers; 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; our ability to continue to meet new and evolving privacy laws and regulations, 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 that we operate as well as the new locations of services provided by third-party cloud computing platform providers; 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, realize the benefits from our strategic partnerships 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, whether internally or through the use of third parties, 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, the continued development of our brands, the addition of distribution channels, the upgrade of our service offerings, the continued development of services including Community Cloud, Industry Clouds and Success Cloud, the integration of new and acquired technologies such as Commerce Cloud, artificial intelligence technologies and Salesforce Quip, the expansion of our Marketing Cloud and Salesforce Platform core service offerings, and the additions to our global infrastructure to support our growth.

We also regularly evaluate acquisitions or investment opportunities in complementary businesses, joint ventures, services and technologies and intellectual property rights in an effort to expand our service offerings. We expect to continue to make such investments and acquisitions in the future and we plan to reinvest a significant portion of our incremental revenue in future periods to grow our business and continue our leadership role in the cloud computing industry. As part of our growth strategy, we are delivering innovative solutions in new categories, including analytics, e-commerce, artificial intelligence, IoT and collaborative productivity tools. We drive innovation organically and to a lesser extent through acquisitions, such as our July 2016 acquisition of Demandware, Inc. ("Demandware"), a digital commerce leader. We have a disciplined and thoughtful acquisition process where we routinely survey the industry landscape across a wide range of companies. As a result of our aggressive growth plans and integration of our previously acquired businesses, we have incurred significant expenses from equity awards and amortization of purchased intangibles, which have reduced our operating income. We remain focused on improving operating margins in fiscal 2019 and beyond.

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, which does not include the Marketing and Commerce Cloud service offerings, was between eight and nine percent as of January 31, 2018. Our attrition rate, including the Marketing Cloud service offering, was less than ten percent as of January 31, 2018. While it is difficult to predict, we expect our attrition rate to remain consistent as we continue to expand our enterprise business and invest in customer success and related programs.

We expect marketing and sales costs, which were 46 percent and 47 percent for fiscal 2018 and 2017, respectively, 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 continue to build greater brand awareness.

## **Fiscal Year**

Our fiscal year ends on January 31. References to fiscal 2018, for example, refer to the fiscal year ending January 31, 2018.

## 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 a number of 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, including as a result of our acquisitions, our business operates in one operating segment because the majority 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 of our total revenues for fiscal 2018. 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 2018 and 2017.

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.

Professional services and other revenues consist of fees associated with consulting and implementation services and training. Our consulting and implementation engagements are billed on a time and materials, fixed fee or subscription 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 Note 1 “Summary of Business and Significant Accounting Policies.”

### ***Revenue by Cloud Service Offering***

The information below is provided on a supplemental basis to give additional insight into the revenue performance of our individual core service offerings. All of the cloud offerings that we offer to customers are grouped into four major cloud service offerings. Subscription and support revenues consisted of the following (in millions):

	Fiscal Year Ended January 31,				
	2018	2017	2016	Variance-Percent Fiscal 2017 and 2018	Variance-Percent Fiscal 2016 and 2017
Sales Cloud . . . . .	\$3,554.3	\$3,060.6	\$2,699.0	16%	13%
Service Cloud . . . . .	2,877.1	2,320.7	1,817.8	24%	28%
Salesforce Platform and Other . . . . .	1,929.2	1,441.6	1,034.7	34%	39%
Marketing and Commerce Cloud . . . . .	1,349.9	933.3	654.1	45%	43%
Total . . . . .	<u>\$9,710.5</u>	<u>\$7,756.2</u>	<u>\$6,205.6</u>		

Subscription and support revenues from the Community Cloud, Quip and our Industry Offerings were not significant in fiscal 2018. Quip revenue is included with Salesforce Platform and Other in the table above. Our Industry Offerings and Community Cloud revenue are included in either Sales Cloud, Service Cloud or Salesforce Platform and Other depending on the primary service offering purchased.

As required under U.S. generally accepted accounting principles (“U.S. GAAP”), we recorded deferred revenue related to acquired contracts from Demandware at fair value on the date of acquisition. As a result, we did not recognize certain revenues related to these acquired contracts that Demandware would have otherwise recorded as an independent entity. Of the \$1,349.9 million subscription and support revenue for Marketing and Commerce Cloud for fiscal 2018, approximately \$253.4 million was attributed to Commerce Cloud.

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 14 percent, 13 percent and 10 percent of our total subscription and support revenues for fiscal 2018, 2017 and 2016, respectively, based on customers’ estimated product demand plans and these allocated amounts are included in the table above.

Additionally, some of our service offerings have similar features and functions. For example, customers may use the Sales Cloud, the Service Cloud or our Salesforce 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, 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 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 and Commerce Cloud is primarily derived from the Americas with little impact from foreign exchange rate movement.



The revenue growth rates of each of our core service offerings fluctuate from quarter to quarter and over time. While we are a market leader in each core offering, we manage the total balanced product portfolio to deliver solutions to our customers. Accordingly, the revenue result for each cloud service offering is not necessarily indicative of the results to be expected for any subsequent quarter.

#### ***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 the value of all subscription and support related invoices, excluding Demandware related invoices, were issued with annual terms during fiscal 2018, 2017 and 2016. 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 toward 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 our largest collections and operating cash flow quarter.

#### ***Unbilled Deferred Revenue, an Operational Measure***

The deferred revenue balance on our consolidated balance sheets does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Unbilled deferred revenue is an operational measure that represents future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. Unbilled deferred revenue amounts by quarter are reflected in the table below. 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. Unbilled deferred revenue also does not include any estimates for overage billings above a customer's minimum commitment.

The sequential quarterly changes in accounts receivable and the related deferred revenue and operating cash flow during the first quarter of our fiscal year are not necessarily indicative of the billing activity that occurs for the following quarters as displayed below (in thousands, except unbilled deferred revenue):

	<u>January 31, 2018</u>	<u>October 31, 2017</u>	<u>July 31, 2017</u>	<u>April 30, 2017</u>
<b>Fiscal 2018</b>				
Accounts receivable, net .....	\$3,917,401	\$1,519,916	\$1,569,322	\$1,439,875
Deferred revenue .....	7,094,705	4,392,082	4,818,634	5,042,652
Operating cash flow (1) .....	1,051,320	125,792	331,269	1,229,584
Unbilled deferred revenue .....	13.3 bn	11.5 bn	10.4 bn	9.6 bn
	<u>January 31, 2017</u>	<u>October 31, 2016</u>	<u>July 31, 2016</u>	<u>April 30, 2016</u>
<b>Fiscal 2017</b>				
Accounts receivable, net .....	\$3,196,643	\$1,281,425	\$1,323,114	\$1,192,965
Deferred revenue .....	5,542,802	3,495,133	3,823,561	4,006,914
Operating cash flow (1) .....	706,146	154,312	250,678	1,051,062
Unbilled deferred revenue .....	9.0 bn	8.6 bn	8.0 bn	7.6 bn
	<u>January 31, 2016</u>	<u>October 31, 2015</u>	<u>July 31, 2015</u>	<u>April 30, 2015</u>
<b>Fiscal 2016</b>				
Accounts receivable, net .....	\$2,496,165	\$1,060,726	\$1,067,799	\$ 926,381
Deferred revenue .....	4,291,553	2,846,510	3,034,991	3,056,820
Operating cash flow (1) .....	470,208	162,514	304,278	735,081
Unbilled deferred revenue .....	7.1 bn	6.7 bn	6.2 bn	6.0 bn

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

## Cost of Revenues and Operating Expenses

### *Cost of Revenues*

Cost of subscription and support revenues primarily consists of expenses related to delivering 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 IT 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, certain third-party fees and allocated overhead. The cost of providing professional services is 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 hardware and we plan to increase the capacity that we are able to offer globally through data centers and third-party infrastructure providers. As we acquire new businesses and technologies, the majority of 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. Finally, we expect the cost of professional services to be approximately in line with revenues from professional services as we believe this investment in professional services facilitates the adoption of our service offerings. 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 adding employees and building the necessary system infrastructure required to support the development of new, and improve existing, technologies and the integration of acquired businesses, technologies and all of our service offerings.

#### *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, as well as payments to partners, marketing programs and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities.

We plan to continue to invest in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness, attracting new customers and sponsoring additional marketing events. The timing of these marketing events, such as our annual and largest event, Dreamforce, will affect our marketing costs in a particular quarter. In addition, as we acquire new businesses and technologies, a component of the amortization expense associated with this activity will be included in marketing and sales. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost. We expect marketing and sales expenses, excluding sales personnel expenses, to grow in line with or at a slower rate than revenues and sales personnel expenses may increase as a percentage of total revenues as we invest in additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

#### *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. However, the timing of additional expenses in a particular quarter, both in terms of absolute dollars and as a percentage of revenues, will affect our general and administrative expenses.

#### *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

statements 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 2018, we recognized stock-based expense related to our equity plans for employees and non-employee directors of \$997.0 million. As of January 31, 2018, the aggregate stock compensation remaining to be amortized to costs and expenses was approximately \$1.8 billion. We expect this stock compensation balance to be amortized as follows: \$855.4 million during fiscal 2019; \$582.7 million during fiscal 2020; \$318.1 million during fiscal 2021; \$59.5 million during fiscal 2022; \$17.2 million during fiscal 2023 and \$8.0 million thereafter. The expected amortization reflects only outstanding stock awards as of January 31, 2018 and assumes no forfeiture activity. We expect to continue to issue stock-based awards to our employees in future periods.

In prior years, we had our annual equity grant cycle for employees in the month of November. During fiscal 2018, we changed our annual equity grant to occur in the month of March, starting in fiscal 2019. Therefore, the stock-based expense timing for fiscal 2018 is not consistent with prior years. We granted 14.9 million shares under the annual equity grant in fiscal 2017 whereas we did not grant any shares under the annual equity grant cycle in fiscal 2018.

#### *Amortization of Purchased Intangibles from Business Combinations and the Purchase of 50 Fremont*

Our cost of revenues, operating expenses and other expenses include amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's developed technology, trade names and trademarks, customer lists, acquired leases and customer relationships. We expect this expense to fluctuate as we acquire more businesses and intangible assets become fully amortized.

### **Critical Accounting Policies and 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.

#### *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*

Our professional services contracts are either on a time and materials, fixed-fee or subscription basis. As discussed below, these revenues are recognized as the services are rendered for time and materials contracts, and when the milestones are achieved and accepted by the customer or on a proportional performance basis for fixed price contracts and ratably over the contract term for subscription professional services. The milestone method for revenue recognition is used when there is substantive uncertainty at the date the contract is entered into whether the milestone will be achieved. 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 at contract inception, 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 services 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, dollar size and new business linearity within the quarter.

*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.

During fiscal 2018, we deferred \$799.3 million of commission expenditures and we amortized \$464.7 million to sales expense. During fiscal 2017, we deferred \$462.0 million of commission expenditures and we amortized \$371.5 million to sales expense. Deferred commissions on our consolidated balance sheets totaled \$874.3 million at January 31, 2018 and \$539.6 million at January 31, 2017.

*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.

*Stock-Based Expense.* We recognize stock-based expenses related to stock options and restricted stock awards on a straight-line basis, net of estimated forfeitures, over the requisite service period of the awards, which is generally the vesting term of four years. We recognize stock-based expenses related to shares issued pursuant to our 2004 Employee Stock Purchase Plan ("ESPP") on a straight-line basis over the offering period, which is 12 months.

Stock-based expenses related to performance share grants are measured based on grant date fair value and expensed on a straight-line basis over the service period of the awards, which is generally the vesting term of three years.

We, at times, grant unvested restricted shares to employee stockholders of certain acquired companies in lieu of cash consideration. These awards are generally subject to continued post-acquisition employment, and as a result, we have accounted for them as post-acquisition stock-based expense. We recognize stock-based expenses equal to the grant date fair value of the restricted stock awards on a straight-line basis over the requisite service period of the awards.

*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.

In the event that we acquire an entity in which we previously held a strategic investment, the difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss and disclosed separately within the statements of operations.

*Goodwill and Intangibles.* 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, discount 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 impact the amount and timing of future amortization expense.

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

Our tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. We recognize the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. We recognize interest accrued and penalties related to unrecognized tax benefits in our income tax provision.

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 our business plans and/or tax planning strategies. Should there be a change in our ability to realize deferred tax assets, our income tax provision would increase or decrease in the period in which the assessment is changed.

In December 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law, significantly changing income tax law that affects U.S. corporations. Key changes included a corporate tax rate reduction from 35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S. international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. We are required to recognize the effects of the tax law changes in the period of enactment, including the determination of the transition tax and the re-measurement of deferred taxes as well as to re-assess the realizability of our deferred tax assets. Subsequent to the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows companies to record provisional amounts related to the effects of the Tax Act during a measurement period not to extend beyond one year of the enactment date. Due to the timing of the Tax Act and additional guidance and interpretations that may be issued by the U.S. Treasury Department, IRS and other standard-setting bodies in the future, we have not completed our analysis of the income tax effects of the Tax Act. Our provisional estimates will be adjusted during the measurement period defined under SAB 118, based upon our ongoing analysis of our data and tax positions along with the new guidance from regulators and interpretations of the law.

*Strategic Investments.* We hold strategic investments in marketable equity securities and non-marketable debt and equity securities in which we do not have a controlling interest or significant influence, as defined in Accounting Standards Codification 323 (“ASC 323”), Investments - Equity Method and Joint Ventures. Marketable equity securities and non-marketable debt securities, which consist of debt investments in privately held companies, are recorded at fair value with changes in fair value recorded through accumulated other comprehensive income. Equity investments without readily determinable fair values for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting. If, based on the terms of our ownership of these marketable and non-marketable securities, we determine that we exercise significant influence on the entity to which these marketable and non-marketable securities relate, we apply the equity method of accounting for such investments.

We determine the fair value of our marketable equity securities and non-marketable debt and equity securities quarterly for impairment and disclosure purposes; however, the non-marketable debt and equity securities are recorded at fair value only if an impairment is recognized. The measurement of fair value requires significant judgment and includes a qualitative and quantitative analysis of events and circumstances that impact the fair value of the investment. Our assessment of the severity and duration of the impairment and qualitative and quantitative analysis includes the investee’s financial metrics, the investee’s products and technologies meeting or exceeding predefined milestones, market acceptance of the product or technology, other competitive products or technology in the market, general market conditions, management and governance structure of the investee, investee’s liquidity, debt ratios and the rate at which the investee is using its cash, and investee’s receipt of additional funding at a lower valuation. 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 market data.

If the fair value of an investment is below our cost, we determine whether the investment is other-than-temporarily impaired based on our qualitative and quantitative analysis, which includes the severity and duration of the impairment. If the investment is considered to be other-than-temporarily impaired, we record the investment at fair value by recognizing an impairment through the income statement and establishing a new cost basis for the investment.



## Results of Operations

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

	Fiscal Year Ended January 31,					
	2018	As a % of Total revenues	2017	As a % of Total revenues	2016	As a % of Total revenues
Revenues:						
Subscription and support . . . . .	\$ 9,710,538	93%	\$7,756,205	92%	\$6,205,599	93%
Professional services and other . . . . .	769,474	7	635,779	8	461,617	7
Total revenues . . . . .	10,480,012	100	8,391,984	100	6,667,216	100
Cost of revenues (1)(2):						
Subscription and support . . . . .	2,033,457	19	1,617,315	19	1,241,692	19
Professional services and other . . . . .	740,065	7	616,724	8	412,856	6
Total cost of revenues . . . . .	2,773,522	26	2,234,039	27	1,654,548	25
Gross profit . . . . .	7,706,490	74	6,157,945	73	5,012,668	75
Operating expenses (1)(2):						
Research and development . . . . .	1,553,073	15	1,208,127	14	946,300	14
Marketing and sales . . . . .	4,829,291	46	3,918,027	47	3,239,824	49
General and administrative . . . . .	1,088,358	10	967,563	11	748,238	11
Operating lease termination resulting from purchase of 50 Fremont . . . . .	0	0	0	0	(36,617)	(1)
Total operating expenses . . . . .	7,470,722	71	6,093,717	72	4,897,745	73
Income from operations . . . . .	235,768	3	64,228	1	114,923	2
Investment income . . . . .	35,848	0	27,374	0	15,341	0
Interest expense . . . . .	(86,943)	(1)	(88,988)	(1)	(72,485)	(1)
Other income (expense) (1) . . . . .	17,435	0	9,072	0	(15,292)	0
Gain on sales of land and building improvements . . . . .	0	0	0	0	21,792	0
Gains from acquisitions of strategic investments . . . . .	0	0	13,697	0	0	0
Income before benefit from (provision for) income taxes . . . . .	202,108	2	25,383	0	64,279	1
Benefit from (provision for) income taxes . . . . .	(74,630)	(1)	154,249	2	(111,705)	(2)
Net income (loss) . . . . .	\$ 127,478	1%	\$ 179,632	2%	\$ (47,426)	(1)%

(1) Amounts related to amortization of purchased intangibles from business combinations, as follows (in thousands):

	Fiscal Year Ended January 31,					
	2018	As a % of Total revenues	2017	As a % of Total revenues	2016	As a % of Total revenues
Cost of revenues . . . . .	\$165,545	2%	\$127,676	2%	\$80,918	1%
Marketing and sales . . . . .	121,340	1	97,601	1	77,152	1
Other income (expense) . . . . .	1,433	0	2,491	0	3,636	0

(2) Amounts related to stock-based expenses, as follows (in thousands):

	Fiscal Year Ended January 31,					
	2018	As a % of Total revenues	2017	As a % of Total revenues	2016	As a % of Total revenues
Cost of revenues . . . . .	\$129,954	1%	\$107,457	1%	\$ 69,443	1%
Research and development . . . . .	259,838	2	187,487	2	129,434	2
Marketing and sales . . . . .	468,553	4	388,937	5	289,152	4
General and administrative . . . . .	138,668	1	136,486	2	105,599	2

	As of January 31,	
	2018	2017
<b>Selected Balance Sheet Data (in thousands):</b>		
Cash, cash equivalents and marketable securities . . . . .	\$ 4,521,705	\$2,208,887
Deferred revenue . . . . .	7,094,705	5,542,802
Unbilled deferred revenue (an operational measure) . . . . .	13,300,000	9,000,000
Principal due on our outstanding debt obligations . . . . .	1,726,821	2,050,000

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.

**Fiscal Year Ended January 31, 2018 and 2017**

*Revenues.*

(in thousands)	Fiscal Year Ended January 31,		Variance	
	2018	2017	Dollars	Percent
Subscription and support . . . . .	\$ 9,710,538	\$7,756,205	\$1,954,333	25%
Professional services and other . . . . .	769,474	635,779	133,695	21%
Total revenues . . . . .	<u>\$10,480,012</u>	<u>\$8,391,984</u>	<u>\$2,088,028</u>	25%

Total revenues were \$10.5 billion for fiscal 2018, compared to \$8.4 billion during the same period a year ago, an increase of \$2.1 billion, or 25 percent. Subscription and support revenues were \$9.7 billion, or 93 percent of total revenues, for fiscal 2018, compared to \$7.8 billion, or 92 percent of total revenues, during the same period a year ago, an increase of \$2.0 billion, or 25 percent. The increase in subscription and support revenues was primarily caused by volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers. Our acquisition of Demandware in July 2016 contributed \$287.7 million to total revenues in fiscal 2018 as compared to \$120.4 million from the date of acquisition to January 31, 2017. This was offset by a reduction in subscription revenues of approximately \$20.0 million as a result of one less day in fiscal 2018 compared to fiscal 2017. We continue to invest in a variety of customer programs and initiatives which, along with increasing enterprise adoption, have helped keep our attrition rate consistent as compared to the prior year. Consistent attrition rates play a role in our ability to maintain growth in our subscription and support revenues. Changes in the net price per user per month have not been a significant driver of revenue growth for the periods presented. Professional services and other revenues were \$769.5 million, or seven percent of total revenues, for fiscal 2018, compared to \$635.8 million, or eight percent of total revenues, for the same period a year ago, an increase of \$133.7 million, or 21 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 by geography were as follows (in thousands):

	Fiscal Year Ended January 31,			
	2018	As a % of Total Revenues	2017	As a % of Total Revenues
Americas .....	\$ 7,579,116	72%	\$6,224,971	74%
Europe .....	1,903,524	18	1,373,547	16
Asia Pacific .....	997,372	10	793,466	10
	<u>\$10,480,012</u>	<u>100%</u>	<u>\$8,391,984</u>	<u>100%</u>

Revenues by geography are determined based on the region of the Salesforce contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent and 96 percent during fiscal 2018 and 2017, respectively.

Revenues in Europe and Asia Pacific accounted for \$2.9 billion, or 28 percent of total revenues, for fiscal 2018, compared to \$2.2 billion, or 26 percent of total revenues, during the same period a year ago, an increase of \$0.7 billion, or 34 percent. The increase in revenues outside of the Americas was the result of the increasing acceptance of our services, our focus on marketing our services internationally and additional resources. Revenues outside of the Americas increased on a total dollar basis by \$97.3 million in fiscal 2018 compared to the same period a year ago as a result of the strengthening British Pound Sterling.

*Cost of Revenues.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2018	2017	
Subscription and support .....	\$2,033,457	\$1,617,315	\$416,142
Professional services and other .....	740,065	616,724	123,341
Total cost of revenues .....	<u>\$2,773,522</u>	<u>\$2,234,039</u>	<u>\$539,483</u>
Percent of total revenues .....	26%	27%	

Cost of revenues was \$2.8 billion, or 26 percent of total revenues, for fiscal 2018, compared to \$2.2 billion, or 27 percent of total revenues, during the same period a year ago, an increase of \$539.5 million. The increase in absolute dollars was primarily due to an increase of \$191.5 million in employee-related costs, an increase of \$22.5 million in stock-based expenses, an increase of \$196.9 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$37.9 million and an increase of \$23.2 million in allocated overhead. We have increased our headcount by 11 percent since January 31, 2017 to meet the higher demand for services from our customers and as a result of our fiscal 2017 acquisitions. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity to allow us to scale with our customers and continuously evolve our security measures. 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 was \$740.1 million during fiscal 2018 resulting in positive gross margin of \$29.4 million. The cost of professional services and other revenues was \$616.7 million during fiscal 2017 resulting in positive gross margins of \$19.1 million. We expect the cost of professional services to be approximately in line with revenues from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

*Operating Expenses.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2018	2017	
Research and development .....	\$1,553,073	\$1,208,127	\$ 344,946
Marketing and sales .....	4,829,291	3,918,027	911,264
General and administrative .....	1,088,358	967,563	120,795
Total operating expenses .....	<u>\$7,470,722</u>	<u>\$6,093,717</u>	<u>\$1,377,005</u>
Percent of total revenues .....	71%	72%	

Research and development expenses were \$1.6 billion, or 15 percent of total revenues, for fiscal 2018, compared to \$1.2 billion, or 14 percent of total revenues, during the same period a year ago, an increase of \$344.9 million. The increase in absolute dollars was primarily due to an increase of approximately \$211.5 million in employee-related costs, an increase of \$72.4 million in stock-based expenses, an increase in our development and test data center costs and allocated overhead. We increased our research and development headcount by 11 percent since January 31, 2017 in order to improve and extend our service offerings, develop new technologies and integrate previously acquired companies, including our fiscal 2017 acquisitions. 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 invest in additional employees and technology to support the development of new, and improve existing, technologies and the integration of acquired technologies.

Marketing and sales expenses were \$4.8 billion, or 46 percent of total revenues, for fiscal 2018, compared to \$3.9 billion, or 47 percent of total revenues, during the same period a year ago, an increase of \$911.3 million. The change was primarily due to an increase of \$719.8 million in employee-related costs and amortization of deferred commissions, an increase of \$79.6 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$23.7 million, and allocated overhead. Our marketing and sales headcount increased by 22 percent since January 31, 2017. 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 expenses were \$1.1 billion, or 10 percent of total revenues, for fiscal 2018, compared to \$1.0 billion, or 11 percent of total revenues, during the same period a year ago, an increase of \$120.8 million. The increase was primarily due to an increase in employee-related costs. Our general and administrative headcount increased by 16 percent since January 31, 2017 as we added personnel to support our growth.

*Other income and expense.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2018	2017	
Investment income .....	\$ 35,848	\$ 27,374	\$ 8,474
Interest expense .....	(86,943)	(88,988)	2,045
Other income (expense) .....	17,435	9,072	8,363
Gains from acquisitions of strategic investments .....	0	13,697	(13,697)

Investment income was \$35.8 million for fiscal 2018 and was \$27.4 million during the same period a year ago. The increase was due to higher interest income across our portfolio.

Interest expense consists of interest on our convertible senior notes, capital leases, financing obligation related to 350 Mission, the loan assumed on 50 Fremont, revolving credit facility and the \$500.0 million term loan that was entered into in connection with our acquisition of Demandware. Interest expense was \$86.9 million for fiscal 2018 and was \$89.0 million during the same period a year ago.

Other income (expense) primarily consists of non-operating transactions such as strategic investment realized gains and losses and other-than-temporary impairments, gains and losses from foreign exchange rate fluctuations and real estate transactions. The Company sold a portion of its publicly-held investments in fiscal 2018, which resulted in a reclassification of previously unrealized gains from the accumulated other comprehensive loss on the balance sheet to other income (expense) in the amount of \$58.6 million. This amount was offset by other-than-temporary impairments on strategic investments.

Gains from acquisitions of strategic investments represents gains recognized related to strategic investments when we acquire an entity in which we previously held a strategic investment. The difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss and disclosed separately within the statements of operations.

*Benefit from (provision for) income taxes.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2018	2017	
Benefit from (provision for) income taxes . . . . .	\$(74,630)	\$154,249	\$(228,879)
Effective tax rate . . . . .	37%	(608)%	

We recognized a tax provision of \$74.6 million on a pretax income of \$202.1 million for fiscal 2018. The tax provision recorded was primarily related to income taxes in profitable jurisdictions outside of the United States.

In fiscal 2017, we recorded a tax benefit of \$154.2 million on a pretax income of \$25.4 million for fiscal 2017. The most significant component of this tax amount was the discrete tax benefit of \$210.3 million from a partial release of the valuation allowance in connection with the acquisition of Demandware. The net deferred tax liability from the acquisition of Demandware provided a source of additional income to support the realizability of our preexisting deferred tax assets and, as a result, we released a portion of our valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside of the United States.

***Fiscal Years Ended January 31, 2017 and 2016***

*Revenues.*

(in thousands)	Fiscal Year Ended January 31,		Variance	
	2017	2016	Dollars	Percent
Subscription and support . . . . .	\$7,756,205	\$6,205,599	\$1,550,606	25%
Professional services and other . . . . .	635,779	461,617	174,162	38%
Total revenues . . . . .	<u>\$8,391,984</u>	<u>\$6,667,216</u>	<u>\$1,724,768</u>	<u>26%</u>

Total revenues were \$8.4 billion for fiscal 2017, compared to \$6.7 billion for fiscal 2016, an increase of \$1.7 billion, or 26 percent. Subscription and support revenues were \$7.8 billion, or 92 percent of total revenues, for fiscal 2017, compared to \$6.2 billion, or 93 percent of total revenues, for fiscal 2016, an increase of

\$1.6 billion, or 25 percent. The increase in subscription and support revenues in fiscal 2017 was primarily caused by volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers. Revenue resulting from our July 2016 acquisition of Demandware contributed \$120.4 million to total revenues for fiscal 2017. Revenues from other acquired businesses in fiscal 2017 were not material. We continued to invest in a variety of customer programs and initiatives, which, along with increasing enterprise adoption, have helped keep our attrition rate consistent as compared to fiscal 2016. Our attrition rate also played a role in the increase in subscription and support revenues. Changes in our pricing have not been a significant driver of revenue growth for the periods presented. Professional services and other revenues were \$635.8 million, or eight percent of total revenues, for fiscal 2017, compared to \$461.6 million, or seven percent of total revenues, for fiscal 2016, an increase of \$174.2 million, or 38 percent. The increase was primarily due to the growth in our subscription professional services.

Revenues by geography were as follows (in thousands):

	Fiscal Year Ended January 31,			
	2017	As a % of Total Revenues	2016	As a % of Total Revenues
Americas .....	\$6,224,971	74%	\$4,910,745	74%
Europe .....	1,373,547	16	1,162,808	17
Asia Pacific .....	793,466	10	593,663	9
	<u>\$8,391,984</u>	<u>100%</u>	<u>\$6,667,216</u>	<u>100%</u>

Revenues in Europe and Asia Pacific accounted for \$2.2 billion, or 26 percent of total revenues, for fiscal 2017, compared to \$1.8 billion, or 26 percent of total revenues, for fiscal 2016, an increase of \$410.5 million, or 23 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 2017 despite an overall strengthening of the U.S. dollar, which reduced aggregate international revenues by \$103.8 million compared to fiscal 2016.

Americas revenue attributed to the United States was approximately 96 percent and 95 percent for fiscal 2017 and 2016, respectively. No other country represented more than ten percent of total revenue during fiscal 2017 or 2016.

*Cost of Revenues.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2017	2016	
Subscription and support .....	\$1,617,315	\$1,241,692	\$375,623
Professional services and other .....	616,724	412,856	203,868
Total cost of revenues .....	<u>\$2,234,039</u>	<u>\$1,654,548</u>	<u>\$579,491</u>
Percent of total revenues .....	27%	25%	

Cost of revenues was \$2.2 billion, or 27 percent of total revenues, for fiscal 2017, compared to \$1.7 billion, or 25 percent of total revenues, for fiscal 2016, an increase of \$579.5 million. The increase in absolute dollars was primarily due to an increase of \$240.9 million in employee-related costs, an increase of \$38.0 million in stock-based expenses, an increase of \$162.4 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of \$23.5 million in professional and outside services, an increase of amortization of purchased intangibles of \$46.8 million, an increase in depreciation of equipment of \$16.2 million and an increase in allocated overhead of \$35.9 million. We increased our headcount by 34 percent in fiscal 2017 to meet the higher demand for services from our customers and as a result of our fiscal 2017 acquisitions.

The cost of professional services and other revenues was \$616.7 million during fiscal 2017 resulting in positive gross margin of \$19.1 million. The cost of professional services and other revenues was \$412.9 million during fiscal 2016 resulting in positive gross margins of \$48.8 million.

*Operating Expenses.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2017	2016	
Research and development . . . . .	\$1,208,127	\$ 946,300	\$ 261,827
Marketing and sales . . . . .	3,918,027	3,239,824	678,203
General and administrative . . . . .	967,563	748,238	219,325
Operating lease termination resulting from purchase of 50 Fremont . . . . .	0	(36,617)	36,617
Total operating expenses . . . . .	<u>6,093,717</u>	<u>4,897,745</u>	<u>1,195,972</u>
Percent of total revenues . . . . .	72%	73%	

Research and development expenses were \$1.2 billion, or 14 percent of total revenues, for fiscal 2017, compared to \$946.3 million, or 14 percent of total revenues, for fiscal 2016, an increase of \$261.8 million. The increase in absolute dollars was primarily due to an increase of \$173.2 million in employee-related costs, an increase of \$58.1 million in stock-based expense, an increase of \$28.1 million in development and test data center expense, and an increase in allocated overhead. We increased our research and development headcount by 35 percent in fiscal 2017 in order to improve and extend our service offerings and develop new technologies as a result of our fiscal 2017 acquisitions.

Marketing and sales expenses were \$3.9 billion, or 47 percent of total revenues, for fiscal 2017, compared to \$3.2 billion, or 49 percent of total revenues, for fiscal 2016, an increase of \$678.2 million. The increase in absolute dollars was primarily due to increases of \$484.3 million in employee-related costs, including amortization of deferred commissions, \$34.7 million in advertising expense, \$20.4 million in amortization of purchased intangibles, \$99.8 million stock-based expense and \$36.5 million in allocated overhead. Our marketing and sales headcount increased by 24 percent in fiscal 2017. The increase in headcount was also attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and administrative expenses were \$967.6 million, or 11 percent of total revenues, for fiscal 2017, compared to \$748.2 million, or 11 percent of total revenues, for fiscal 2016, an increase of \$219.3 million. The increase was primarily due to an increase of \$175.2 million in employee-related costs, an increase of \$30.9 million in stock-based expense and an increase in professional and outside services. Our general and administrative headcount increased by 22 percent in fiscal 2017 as we added personnel to support our growth.

In connection with the purchase of 50 Fremont, we recognized a net non-cash gain in fiscal 2016 totaling approximately \$36.6 million on the termination of the lease signed in January 2012.

*Other income and expense.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2017	2016	
Investment income . . . . .	\$ 27,374	\$ 15,341	\$ 12,033
Interest expense . . . . .	(88,988)	(72,485)	(16,503)
Other income (expense) . . . . .	9,072	(15,292)	24,364
Gain on sales of land and building improvements . . . . .	0	21,792	(21,792)
Gains from acquisitions of strategic investments . . . . .	13,697	0	13,697

Investment income consists of income on our cash and marketable securities balances. Investment income was \$27.4 million for fiscal 2017 and was \$15.3 million for fiscal 2016. The increase was due to both realized gains resulting from the sales of marketable securities as well as higher interest income across our portfolio.

Interest expense consists of interest on our convertible senior notes, capital leases, financing obligation related to 350 Mission, the loan assumed on 50 Fremont, revolving credit facility and the \$500.0 million term loan that was entered into in connection with our acquisition of Demandware. Interest expense was \$89.0 million for fiscal 2017 and was \$72.5 million for fiscal 2016. The increase was primarily due to the term loan in fiscal 2017 associated with the Demandware purchase and our outstanding balance in our revolving facility in in fiscal 2017.

Other income (expense) primarily consists of non-operating transactions such as strategic investments fair market value adjustments, gains and losses from foreign exchange rate fluctuations and real estate transactions.

Gain on sales of land and building improvements consists of the gain the company recognized from sales of undeveloped real estate and a portion of associated perpetual parking rights in San Francisco, California. Gain on sales of land and building improvements, net of closing costs, was \$21.8 million during fiscal 2016.

Gains from acquisitions of strategic investments represents gains on sales of strategic investments when we acquire an entity in which we previously held a strategic investment. The difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss and disclosed separately within the statements of operations.

*Benefit from (provision for) income taxes.*

(in thousands)	Fiscal Year Ended January 31,		Variance Dollars
	2017	2016	
Benefit from (provision for) income taxes . . . . .	\$154,249	\$(111,705)	\$265,954
Effective tax rate . . . . .	(608)%	174%	

We reported a tax benefit of \$154.2 million on a pretax income of \$25.4 million, which resulted in a negative effective tax rate of 608 percent for fiscal 2017. The most significant component of this tax amount was the tax benefit of \$210.3 million from a partial release of the valuation allowance in connection with the acquisition of Demandware. The net deferred tax liability from the acquisition of Demandware provided a source of additional income to support the realizability of our preexisting deferred tax assets and as a result, we released a portion of our tax valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside the United States. Additionally, as a result of early adopting Accounting Standards Update No. 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting” (“ASU 2016-09”) and our valuation allowance position, we did not record significant U.S. current income tax expense.

We recorded a tax provision of \$111.7 million with a pretax income of \$64.3 million, which resulted in an effective tax rate of 174 percent for fiscal 2016. We had a tax provision in profitable jurisdictions outside the United States and current tax expense in the United States. We had U.S. current tax expense as a result of taxable income before considering certain excess tax benefits from stock options and vesting of restricted stock.

**Liquidity and Capital Resources**

At January 31, 2018, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$4.5 billion and accounts receivable of \$3.9 billion. Our cash, cash equivalents and marketable securities



are comprised primarily of corporate notes and obligations, U.S. treasury securities, asset backed securities, foreign government obligations, mortgage backed obligations, time deposits, money market mutual funds and municipal securities.

Net cash provided by operating activities was \$2.7 billion during fiscal 2018 and \$2.2 billion during the same period a year ago. Net cash provided by operating activities was \$2.2 billion during fiscal 2017 and \$1.7 billion during fiscal 2016. Cash provided by operating activities has historically been affected by the amount of net income adjusted for non-cash expense items such as depreciation and amortization; amortization of purchased intangibles from business combinations; amortization of debt discount; the expense associated with stock-based awards; gains on sales of strategic investments; the timing of employee related costs including commissions and bonus payments; the timing of payments against accounts payable, accrued expenses and other current liabilities; the timing of collections from our customers, which is our largest source of operating cash flows; the timing of business combination activity and the related integration and transaction costs; and changes in working capital accounts.

Our working capital accounts consist of accounts receivable, deferred commissions, prepaid assets and other current assets. Claims against working capital include accounts payable, accrued expenses, deferred revenue, and other current liabilities and payments related to our debt obligations. Our working capital may be impacted by factors in future periods such as billings to customers for subscriptions and support services and the subsequent collection of those billings, certain amounts and timing of which are seasonal. Our working capital in some quarters may be impacted by adverse foreign currency exchange rate movements and this impact may increase as our working capital balances increase in our foreign subsidiaries. Our billings are also influenced by new business linearity within the quarters and across quarters.

As described above in “Seasonal Nature of Deferred Revenue, Accounts Receivable and Operating Cash Flow,” our fourth quarter has historically been our strongest quarter for new business and renewals and, correspondingly, the first quarter has historically been the strongest for cash collections. The year on year compounding effect of this seasonality in both billing patterns and overall business causes both the value of invoices that we generate in the fourth quarter and cash collections in the first 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 sheets, and as the contract renewal approaches, the corresponding deferred revenue decreases to zero. 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 is our largest collections and operating cash flow quarter.

Net cash used in investing activities was \$2.0 billion during fiscal 2018 and \$2.7 billion during the same period a year ago. The net cash used in investing activities during fiscal 2018 primarily related to purchases of marketable securities of \$2.0 billion and new office build outs and capital investments of \$534.0 million, which were offset by the cash inflows for the period from the sales of marketable securities of \$558.6 million. Net cash used in investing activities was \$2.7 billion during fiscal 2017 and \$1.5 billion during fiscal 2016. The net cash used in investing activities during fiscal 2017 primarily related to business combinations with the largest being the acquisition of Demandware in July 2016, purchases of marketable securities of approximately \$1.1 billion, new office build-outs and strategic and capital investments, which were offset by the cash inflows for the period from sales and maturities of marketable securities of \$2.0 billion. Net cash used in investing activities was \$1.5 billion during fiscal 2016, which primarily related to capital expenditures, strategic investments, business combinations, the purchase of 50 Fremont land and building, new office build-outs, investment of cash balances offset by proceeds from sales and maturities of marketable securities and proceeds from the sale of Mission Bay land and the use of restricted cash to purchase 50 Fremont land and building.

Net cash provided by financing activities was \$221.2 million during fiscal 2018 as compared to \$997.7 million during the same period a year ago. Net cash provided by financing activities during fiscal 2018 consisted primarily of \$650.3 million from proceeds from equity plans offset by \$200.0 million repayment of the revolving credit facility, \$123.2 million of principal payments on conversions of the 0.25% Senior Notes and \$105.9 million of principal payments on capital lease obligations. Net cash provided by financing activities was \$997.7 million during fiscal 2017 as compared to net cash provided by financing activities of \$73.2 million during fiscal 2016. Net cash provided by financing activities during fiscal 2017 consisted primarily of \$748.8 million proceeds from borrowings under our revolving credit facility, \$495.6 million of proceeds from the Term Loan, net of loan fees, \$401.5 million from proceeds from equity plans offset by \$98.2 million of principal payments on capital leases and \$550.0 million payment of our revolving credit facility. Net cash provided by financing activities during fiscal 2016 consisted primarily of \$455.5 million from proceeds from equity plan offset by \$82.3 million of principal payments on capital leases and \$300.0 million payment of our revolving credit facility.

In March 2013, we issued at par value \$1.15 billion of 0.25% convertible senior notes (“0.25% Senior Notes”), due April 2018, unless earlier purchased by us or converted. The Notes are classified as a current liability on our consolidated balance sheet as of January 31, 2018 as they are due within one year. As of January 31, 2018 the remaining principal balance of the 0.25% Senior Notes outstanding is \$1.03 billion.

In July 2016, we entered into a credit agreement (“Revolving Loan Credit Agreement”), which provides for a \$1.0 billion unsecured revolving credit facility (“Credit Facility”) that matures in July 2021. We may use any future borrowings under the Credit Facility for refinancing other indebtedness, 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 Revolving Loan Credit Agreement. As of January 31, 2018, we had no outstanding borrowings under the Credit Facility. We were in compliance with the Revolving Loan Credit Agreement’s covenants as of January 31, 2018.

In July 2016, to partially finance the acquisition of Demandware, we entered into a \$500.0 million term loan (“Term Loan”) which matures in July 2019. As of January 31, 2018, the noncurrent outstanding principal portion of the Term Loan was \$500.0 million.

All outstanding amounts under the Term Loan Credit Agreement will be due and payable in July 2019. The Company may prepay the Term Loan, in whole or in part, at any time without premium or penalty, subject to certain conditions, and amounts repaid or prepaid may not be reborrowed. The Company’s obligations under the Term Loan Credit Agreement are required to be guaranteed by certain of its subsidiaries meeting certain thresholds set forth in the Term Loan Credit Agreement. The Company was in compliance with the Term Loan Credit Agreement’s covenants as of January 31, 2018.

As of January 31, 2018, we have a total of \$99.9 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, 2018, the future non-cancelable minimum payments under these commitments were as follows (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
<b>Contractual Obligations</b>					
Capital lease obligations, including interest . . .	\$ 317,645	\$ 115,909	\$ 201,695	\$ 41	\$ 0
Operating lease obligations: . . . . .					
Facilities space . . . . .	2,727,369	335,289	660,807	575,673	1,155,600
Computer equipment and furniture and fixtures . . . . .	555,958	275,636	280,322	0	0
0.25% Convertible Senior Notes . . . . .	1,026,821	1,026,821	0	0	0
Loan assumed on 50 Fremont . . . . .	200,000	2,128	7,661	8,257	181,954
Term loan . . . . .	500,000	0	500,000	0	0
Financing obligation—leased facility . . . . .	300,903	21,881	45,095	46,872	187,055
Contractual commitments . . . . .	513,831	185,449	229,132	53,500	45,750
	<u>\$6,142,527</u>	<u>\$1,963,113</u>	<u>\$1,924,712</u>	<u>\$684,343</u>	<u>\$1,570,359</u>

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—leased facility above represents the total obligation for our lease of approximately 445,000 rentable square feet of office space at 350 Mission St. (“350 Mission”) in San Francisco, California. As of January 31, 2018, \$218.2 million of the total obligation noted above was recorded to Financing obligation—leased facility, of which the current portion is included in “Accounts payable, accrued expenses and other liabilities” and the noncurrent portion is included in “Other noncurrent liabilities” on the consolidated balance sheets.

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Obligations under contracts that we can cancel without a significant penalty are not included in the table above.

In April 2016, we entered into an agreement with a third-party provider for certain infrastructure services for a period of four years. We paid \$96.0 million in connection with this agreement during fiscal 2018. The agreement further provides that we will pay an additional \$108.0 million in fiscal 2019 and \$126.0 million in fiscal 2020. This agreement is included in the table above under contractual commitments.

In July 2017, we entered into an agreement with a third-party to obtain the exclusive naming rights for the Salesforce Transit Center project in San Francisco for a period of 25 years. We paid a non-refundable fee of \$1.0 million upon execution of the agreement and we are obligated to pay approximately \$4.4 million each year over the life of the agreement. The agreement may be terminated by us without cause upon satisfaction of certain conditions and is therefore excluded from the table above.

During fiscal 2018 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, services and technologies, and intellectual property rights. To facilitate these acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all, which may affect our ability to complete subsequent acquisitions or investments, and which may affect the risks of owning our common stock.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities and, if necessary, our borrowing capacity under our Credit Facility will be sufficient to meet our working capital, capital expenditure and debt repayment needs over the next 12 months. We expect our cash tax payments for the next 12 months, primarily from profitable jurisdictions outside of the U.S, to be consistent with those paid in prior years. Additionally, the one-time transition tax under the Tax Act will not have an impact on our cash taxes based on our provisional assessment.

### **New Accounting Pronouncements**

See Note 1 “Summary of Business and Significant Accounting Policies” to the consolidated financial statements for our discussion about new accounting pronouncements adopted and those pending.

### **Other Information**

#### *Environmental, Social and Governance*

We believe the business of business is improving the state of the world for all of our stakeholders, including our stockholders, customers, employees, community, environment and society. We are committed to creating a sustainable, low-carbon future by delivering a carbon neutral cloud, operating as a net-zero greenhouse gas emissions company and by working to achieve our goal of 100 percent renewable energy for our global operations. In addition, we have spearheaded initiatives to drive equality in four key areas: equal rights, equal pay, equal education and equal opportunity. We also pioneered and have inspired other companies to adopt our 1-1-1 integrated philanthropy model, which leverages 1 percent of a company’s equity, employee time and product to help improve communities around the world. Together with the Salesforce Foundation, a 501(c)(3) nonprofit organization, and Salesforce.org, a nonprofit social enterprise, which are not included in our consolidated financial statements, we have given approximately \$200 million to charitable organizations, logged more than 2.6 million employee volunteer hours around the world and provided more than 34,000 nonprofit and higher education organizations with the use of our service offerings for free or at a discount.

Below are some of the key highlights of our environmental, social and governance efforts:

- In fiscal 2018 we achieved net-zero greenhouse gas emissions and began delivering a carbon neutral cloud for all customers. In addition, we are committed to working toward 100 percent renewable energy for our global operations. To support this goal, in fiscal 2016, we signed two virtual power purchase agreements in West Virginia and Texas and, in fiscal 2018, we began sourcing 100 percent renewable energy for approximately 90 percent of our urban campus in San Francisco.
- As part of our ongoing work to promote equality in employee pay, opportunity and advancement, in fiscal 2017, we initiated our equal pay assessment and subsequently adjusted our pay practices to eliminate statistically significant gender-associated differences in pay, committing approximately \$6 million to this end to date.
- In fiscal 2018, we announced that Salesforce Tower will feature the largest on-site water recycling system in a commercial high-rise building in the United States. The system is expected to reduce the building’s water consumption and provide water recycling capabilities for all building tenants.

- We strive to integrate sustainability into our corporate events. For example, at Dreamforce 2017, we offset 100 percent of onsite event greenhouse gas emissions, as well as emissions from employee travel, through carbon credits purchased by us.
- We are active in and support organizations that move the United States and the world toward a more sustainable, low-carbon future. For example, we were a founding member of the Business Renewables Center, signed the Corporate Renewable Energy Buyers' Principles, helped to launch the Corporate Colocation and Cloud Buyers' Principles, disclose our annual carbon emissions to the Carbon Disclosure Project, and signed on to initiatives such as We Mean Business and the American Business Act on Climate.
- We have significantly increased the diversity of our Board over the past five years, including with respect to gender and race.

We leverage a number of communications channels and strategic content to better serve and engage our many stakeholders. Our sustainability website, [www.salesforce.com/company/sustainability](http://www.salesforce.com/company/sustainability), provides information regarding our environmental and other sustainability efforts, including our annual impact reports and our environmental policy. At our equality portal, [www.salesforce.com/company/equality](http://www.salesforce.com/company/equality), our stakeholders can gain insights on our approach to equality, see our company profile by gender, and review our most recent Employer Information Report, which provides a snapshot in time of our U.S. demographics based on categories prescribed by the federal government. In addition, stakeholders can learn about equality through one of our many free Trailheads. Our annual proxy statement, as available on the Investor Relations website, [www.investor.salesforce.com](http://www.investor.salesforce.com), or [www.sec.gov](http://www.sec.gov), provides additional details on our corporate governance practices, including our board composition.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Foreign Currency Exchange Risk***

We primarily conduct our business in the following locations: the United States, Europe, Canada, Asia Pacific and Japan. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, additional headcount in foreign countries, and operating in countries where the functional currency is the local currency. Specifically, our results of operations and cash flows are subject to fluctuations in the following currencies: the Euro, British Pound Sterling, Canadian Dollar, Australian Dollar and Japanese Yen against the United States Dollar (“USD”). These exposures may change over time as business practices evolve and economic conditions change. Changes in foreign currency exchange rates could have an adverse impact on our financial results and cash flows.

Our European revenue, operating expenses and significant balance sheet accounts denominated in currencies other than the USD primarily flow through our United Kingdom subsidiary, which has a functional currency of the British Pound. This results in a two-step currency exchange process wherein the currencies in Europe other than the British Pound are first converted into the British Pound and then British Pounds are translated into USD for our Consolidated Financial Statements. As an example, costs incurred in France are translated from the Euro to the British Pound and then into the USD. Our statements of operations and balance sheet accounts are also impacted by the re-measurement of non-functional currency transactions such as USD denominated intercompany loans, cash accounts held by our overseas subsidiaries, accounts receivable denominated in foreign currencies and deferred revenue and accounts payable denominated in foreign currencies.

### ***Foreign Currency Transaction Risk***

Our foreign currency exposures typically arise from selling annual and multi-year subscriptions in multiple currencies, customer account receivables, intercompany transfer pricing arrangements and other intercompany transactions. Our foreign currency management objective is to minimize the effect of fluctuations in foreign exchange rates on selected assets or liabilities without exposing us to additional risk associated with transactions that could be regarded as speculative.

We pursue our objective by utilizing foreign currency forward contracts to offset foreign exchange risk. Our foreign currency forward contracts are generally short-term in duration. We neither use these foreign currency forward contracts for trading purposes nor do we currently designate these forward contracts as hedging instruments pursuant to Accounting Standards Codification 815 (“ASC 815”), Derivatives and Hedging. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our consolidated balance sheets with changes in fair values recorded to our consolidated statements of operations. Given the short duration of the forward contracts, the amount recorded is not significant. Our ultimate realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized gain or loss on our foreign currency forward contracts and other factors.

### ***Foreign Currency Translation Risk***

Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenues, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into USD. As the USD fluctuated against certain international currencies over the past several months, the amounts of revenue and deferred revenue that we reported in USD for foreign subsidiaries that transact in international currencies were higher relative to what we would have reported using a constant currency rate.

### ***Interest Rate Sensitivity***

We had cash, cash equivalents and marketable securities totaling \$4.5 billion at January 31, 2018. 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 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, 2018 could result in a \$33.5 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.

At January 31, 2017, we had cash, cash equivalents and marketable securities totaling \$2.2 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 \$13.0 million.

#### ***Market Risk and Market Interest Risk***

We deposit our cash with multiple financial institutions.

In March 2013, we issued at par value \$1.15 billion of 0.25% convertible senior notes (“Notes”) due in April 2018. Holders of the Notes may convert the 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. 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 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 is exposed to interest rate risk. Generally, the fair value 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 Notes is affected by our stock price. The principal balance of our Notes was \$1.03 billion as of January 31, 2018. The total estimated fair value of our Notes at January 31, 2018 was \$1.8 billion. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the fourth quarter of fiscal 2018, which was \$170.95.

In July 2016, we amended our credit agreement (“Revolving Loan Credit Agreement”) to provide for a \$1.0 billion unsecured revolving credit facility (“Credit Facility”) that matures in July 2021.

The Borrowings under the Credit Facility bear interest, at our option, at a base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on our consolidated leverage ratio for the preceding four fiscal quarter period. Regardless of what amounts, if any, are outstanding under the revolving credit facility, we are also obligated to pay an ongoing

commitment fee on undrawn amounts at a rate of 0.125% to 0.25%, with such rate being based on our consolidated leverage ratio for the preceding four fiscal quarter period, payable in arrears quarterly. As of January 31, 2018 there was no outstanding borrowing amount under the Credit Facility.

In February 2015, we assumed a \$200.0 million loan with the acquisition of 50 Fremont (“Loan”). The Loan bears an interest rate of 3.75% per annum and is due in June 2023. For the remainder of fiscal 2018, the Loan requires interest only payments. Beginning in fiscal 2019, principal and interest payments are required, with the remaining principal due at maturity. The Loan can be prepaid at any time subject to a yield maintenance fee. The agreement governing the Loan contains certain customary affirmative and negative covenants that we were in compliance with as of January 31, 2018.

In July 2016, we entered into a \$500.0 million term loan (“Term Loan”) which matures in July 2019 and bears interest at our option, at either a base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on the Company’s consolidated leverage ratio for the preceding four fiscal quarter period. We entered into the Term Loan for purposes of partially funding the acquisition of Demandware. Interest is due and payable in arrears quarterly for loans bearing interest at a rate based on the base rate and at the end of an interest period in the case of loans bearing interest at the adjusted LIBOR rate.

By entering into the Term Loan, we have assumed risks associated with variable interest rates based upon a variable base rate or LIBOR. The weighted average interest rate on the Term Loan was 2.2% as of January 31, 2018. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations.

The bank counterparties to our 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, which range from early-stage companies to more mature companies with established revenue streams and business models. As of January 31, 2018, our portfolio consists of investments in over 200 privately held companies and two public companies, primarily comprised of independent software vendors and system integrators. Our investments in these companies range from \$0.2 million to over \$90.0 million, with 16 investments individually equal to or in excess of approximately \$10.0 million as of January 31, 2018.

We invest in early-to-late stage enterprise cloud companies for strategic reasons and to support key business initiatives to grow our ecosystem of partners and accelerate the adoption of cloud technologies. We invest in both domestic and international companies and currently hold investments in all of our regions: the Americas, Europe, and Asia Pacific. We plan to continue to invest in these types of strategic investments, including in companies representing targeted geographies and targeted business and technological initiatives, as opportunities arise that we find attractive

The primary purpose of our investments is to create an ecosystem of enterprise cloud companies, accelerate the growth of technology startups and system integrators and create the next generation of mobile applications and connected products. Therefore, we continually evaluate our investments in privately held and publicly traded companies. In certain cases, our ability to sell these investments may be impacted by contractual obligations to hold the securities for a set period of time after a public offering. Currently, one of our publicly held investments is subject to such a contractual obligation, which expires in the first quarter of fiscal 2019.



Our strategic investments in privately held companies are primarily in preferred stock of the respective investees and therefore provide us with liquidation preferences in the event there are certain liquidation events. 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 debt at their estimated fair value and equity securities of the privately held companies using the cost method of accounting. Otherwise, we account for the investments using the equity method of accounting.

As of January 31, 2018 and January 31, 2017, the carrying value of our investments in privately held companies was \$652.8 million and \$526.0 million, respectively. The estimated fair value of our investments in privately held companies was \$912.0 million and \$758.3 million as of January 31, 2018 and January 31, 2017, respectively. The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. 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 that is other-than-temporary, which could be material. We have in the past recorded other than temporary impairments or written off the full value of specific investments. Similar situations could occur in the future and negatively impact our financial results. All of our investments are subject to a risk of partial or total loss of investment capital.

**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:

	<u>Page No.</u>
Reports of Independent Registered Public Accounting Firm .....	71
Consolidated Balance Sheets .....	74
Consolidated Statements of Operations .....	75
Consolidated Statements of Comprehensive Income (loss) .....	76
Consolidated Statements of Stockholders' Equity .....	77
Consolidated Statements of Cash Flows .....	78
Notes to Consolidated Financial Statements .....	80

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. (the Company) as of January 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2018, 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 9, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002

Redwood City, California  
March 9, 2018

## **Report of Independent Registered Public Accounting Firm**

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

### **Opinion on Internal Control Over Financial Reporting**

We have audited salesforce.com, inc.'s internal control over financial reporting as of January 31, 2018 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). In our opinion, salesforce.com, inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a)2, and our report dated March 9, 2018 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### **Definition and Limitations of Internal Control Over Financial Reporting**

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.

/s/ Ernst & Young LLP

Redwood City, California  
March 9, 2018

**salesforce.com, inc.**  
**Consolidated Balance Sheets**  
(in thousands)

	<u>January 31, 2018</u>	<u>January 31, 2017</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 2,543,484	\$ 1,606,549
Marketable securities .....	1,978,221	602,338
Accounts receivable, net of allowance for doubtful accounts of \$20,963 and \$12,039 at January 31, 2018 and 2017, respectively .....	3,917,401	3,196,643
Deferred commissions .....	460,887	311,770
Prepaid expenses and other current assets .....	390,378	279,527
Total current assets .....	<u>9,290,371</u>	<u>5,996,827</u>
Property and equipment, net .....	1,946,527	1,787,534
Deferred commissions, noncurrent .....	413,375	227,849
Capitalized software, net .....	146,065	141,671
Strategic investments .....	677,283	566,953
Goodwill .....	7,314,096	7,263,846
Intangible assets acquired through business combinations, net .....	826,445	1,113,374
Other assets, net .....	395,640	486,869
Total assets .....	<u><u>\$21,009,802</u></u>	<u><u>\$17,584,923</u></u>
<b>Liabilities, temporary equity and stockholders' equity</b>		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities .....	\$ 2,010,096	\$ 1,752,664
Deferred revenue .....	7,094,705	5,542,802
Current portion of debt .....	1,024,717	0
Total current liabilities .....	<u>10,129,518</u>	<u>7,295,466</u>
Non-current debt .....	694,781	2,008,391
Other noncurrent liabilities .....	793,140	780,939
Total liabilities .....	<u>11,617,439</u>	<u>10,084,796</u>
Commitments and contingencies (See Notes 13 and 15)		
Temporary equity:		
Convertible 0.25% senior notes due April 2018 .....	<u>3,867</u>	<u>0</u>
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, 729,853 and 707,460 issued and outstanding at January 31, 2018 and 2017, respectively .....	730	708
Additional paid-in capital .....	9,752,340	8,040,170
Accumulated other comprehensive loss .....	(27,142)	(75,841)
Accumulated deficit .....	(337,432)	(464,910)
Total stockholders' equity .....	<u>9,388,496</u>	<u>7,500,127</u>
Total liabilities, temporary equity and stockholders' equity .....	<u><u>\$21,009,802</u></u>	<u><u>\$17,584,923</u></u>

See accompanying Notes.

**salesforce.com, inc.**

**Consolidated Statements of Operations**

(in thousands, except per share data)

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenues:			
Subscription and support . . . . .	\$ 9,710,538	\$7,756,205	\$6,205,599
Professional services and other . . . . .	769,474	635,779	461,617
Total revenues . . . . .	10,480,012	8,391,984	6,667,216
Cost of revenues (1)(2):			
Subscription and support . . . . .	2,033,457	1,617,315	1,241,692
Professional services and other . . . . .	740,065	616,724	412,856
Total cost of revenues . . . . .	2,773,522	2,234,039	1,654,548
Gross profit . . . . .	7,706,490	6,157,945	5,012,668
Operating expenses (1)(2):			
Research and development . . . . .	1,553,073	1,208,127	946,300
Marketing and sales . . . . .	4,829,291	3,918,027	3,239,824
General and administrative . . . . .	1,088,358	967,563	748,238
Operating lease termination resulting from purchase of 50 Fremont . . . . .	0	0	(36,617)
Total operating expenses . . . . .	7,470,722	6,093,717	4,897,745
Income from operations . . . . .	235,768	64,228	114,923
Investment income . . . . .	35,848	27,374	15,341
Interest expense . . . . .	(86,943)	(88,988)	(72,485)
Other income (expense) (1) . . . . .	17,435	9,072	(15,292)
Gain on sales of land and building improvements . . . . .	0	0	21,792
Gains from acquisitions of strategic investments . . . . .	0	13,697	0
Income before benefit from (provision for) income taxes . . . . .	202,108	25,383	64,279
Benefit from (provision for) income taxes . . . . .	(74,630)	154,249	(111,705)
Net income (loss) . . . . .	\$ 127,478	\$ 179,632	\$ (47,426)
Basic net income (loss) per share . . . . .	\$ 0.18	\$ 0.26	\$ (0.07)
Diluted net income (loss) per share . . . . .	\$ 0.17	\$ 0.26	\$ (0.07)
Shares used in computing basic net income (loss) per share . . . . .	714,919	687,797	661,647
Shares used in computing diluted net income (loss) per share . . . . .	734,598	700,217	661,647

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

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cost of revenues . . . . .	\$ 165,545	\$ 127,676	\$ 80,918
Marketing and sales . . . . .	121,340	97,601	77,152
Other income (expense) . . . . .	1,433	2,491	3,636

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

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cost of revenues . . . . .	\$129,954	\$107,457	\$ 69,443
Research and development . . . . .	259,838	187,487	129,434
Marketing and sales . . . . .	468,553	388,937	289,152
General and administrative . . . . .	138,668	136,486	105,599

See accompanying Notes.

**salesforce.com, inc.**

**Consolidated Statements of Comprehensive Income (Loss)**

(in thousands)

	Fiscal Year Ended January 31,		
	2018	2017	2016
Net income (loss) .....	\$127,478	\$179,632	\$(47,426)
Other comprehensive income (loss), before tax and net of reclassification adjustments:			
Foreign currency translation and other gains (losses) .....	52,072	(43,070)	(16,616)
Unrealized gains (losses) on marketable securities and strategic investments .....	(4,497)	14,500	(9,193)
Other comprehensive income (loss), before tax .....	47,575	(28,570)	(25,809)
Tax effect .....	1,124	2,646	0
Other comprehensive income (loss), net of tax .....	48,699	(25,924)	(25,809)
Comprehensive income (loss) .....	\$176,177	\$153,708	\$(73,235)

See accompanying Notes.



**salesforce.com, inc.**

**Consolidated Statements of Stockholders' Equity**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2015	650,596	\$651	\$4,604,485	\$(24,108)	\$(605,845)	\$3,975,183
Exercise of stock options and stock grants to board members for board services	8,278	8	296,493	0	0	296,501
Vested restricted stock units converted to shares	8,933	9	0	0	0	9
Shares issued related to business combinations, net	117	0	0	0	0	0
Shares issued under employee stock plans	3,005	3	154,957	0	0	154,960
Tax benefits from employee stock plans	0	0	59,496	0	0	59,496
Stock-based expenses	0	0	589,955	0	0	589,955
Other comprehensive loss, net of tax	0	0	0	(25,809)	0	(25,809)
Net loss	0	0	0	0	(47,426)	(47,426)
Balance at January 31, 2016	670,929	\$671	\$5,705,386	\$(49,917)	\$(653,271)	\$5,002,869
Exercise of stock options and stock grants to board members for board services	5,555	6	200,760	0	0	200,766
Vested restricted stock units converted to shares	8,098	8	0	0	0	8
Shares issued related to business combinations, net	19,697	20	1,192,170	0	0	1,192,190
Shares issued under employee stock plans	3,181	3	126,147	0	0	126,150
Stock-based expenses	0	0	815,707	0	0	815,707
Other comprehensive loss, net of tax	0	0	0	(25,924)	0	(25,924)
Excess tax benefits cumulative-effect adjustment	0	0	0	0	8,729	8,729
Net income	0	0	0	0	179,632	179,632
Balance at January 31, 2017	707,460	\$708	\$8,040,170	\$(75,841)	\$(464,910)	\$7,500,127
Exercise of stock options and stock grants to board members for board services	8,389	8	389,819	0	0	389,827
Vested restricted stock units converted to shares	9,527	10	0	0	0	10
Shares issued related to business combinations, net	333	0	12,145	0	0	12,145
Shares issued under employee stock plans	4,144	4	319,683	0	0	319,687
Temporary equity reclassification related to 0.25% convertible notes	0	0	(3,867)	0	0	(3,867)
Settlement of 0.25% convertible notes	0	0	(346)	0	0	(346)
Stock-based expenses	0	0	994,736	0	0	994,736
Other comprehensive income, net of tax	0	0	0	48,699	0	48,699
Net income	0	0	0	0	127,478	127,478
Balance at January 31, 2018	729,853	\$730	\$9,752,340	\$(27,142)	\$(337,432)	\$9,388,496

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Cash Flows  
(in thousands)

	Fiscal Year Ended January 31,		
	2018	2017	2016
<b>Operating activities:</b>			
Net income (loss)	\$ 127,478	\$ 179,632	\$ (47,426)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	752,600	632,245	525,750
Amortization of debt discount and issuance costs	31,267	30,541	27,467
Gain on sales of land and building improvements	0	0	(21,792)
Gains from acquisitions of strategic investments	0	(13,697)	0
50 Fremont lease termination	0	0	(36,617)
Amortization of deferred commissions	464,662	371,541	319,074
Expenses related to employee stock plans	997,013	820,367	593,628
Changes in assets and liabilities, net of business combinations:			
Accounts receivable, net	(720,019)	(628,477)	(582,425)
Deferred commissions	(799,305)	(462,030)	(380,022)
Prepaid expenses and other current assets and other assets	24,140	(28,850)	50,772
Accounts payable, accrued expenses and other liabilities	308,225	49,953	253,986
Deferred revenue	1,551,904	1,210,973	969,686
Net cash provided by operating activities	<u>2,737,965</u>	<u>2,162,198</u>	<u>1,672,081</u>
<b>Investing activities:</b>			
Business combinations, net of cash acquired	(25,391)	(3,192,739)	(58,680)
Proceeds from land and building improvements held for sale	0	0	127,066
Purchase of 50 Fremont land and building	0	0	(425,376)
Deposit for purchase of 50 Fremont land and building	0	0	115,015
Non-refundable amounts received for sale of land available for sale	0	0	6,284
Purchases of strategic investments	(216,438)	(110,329)	(386,219)
Sales of strategic investments	130,732	80,342	19,700
Purchases of marketable securities	(2,003,115)	(1,070,412)	(1,139,267)
Sales of marketable securities	558,614	2,005,301	500,264
Maturities of marketable securities	79,123	67,454	37,811
Capital expenditures	(534,027)	(463,958)	(284,476)
Net cash used in investing activities	<u>(2,010,502)</u>	<u>(2,684,341)</u>	<u>(1,487,878)</u>
<b>Financing activities:</b>			
Proceeds from term loan, net	0	495,550	0
Proceeds from employee stock plans	650,300	401,481	455,482
Principal payments on capital lease obligations	(105,896)	(98,157)	(82,330)
Payments on revolving credit facility	(200,000)	(550,000)	(300,000)
Proceeds from revolving credit facility	0	748,824	0
Payments on convertible 0.25% senior notes	(123,179)	0	0
Net cash provided by financing activities	<u>221,225</u>	<u>997,698</u>	<u>73,152</u>
<b>Effect of exchange rate changes</b>	<u>(11,753)</u>	<u>(27,369)</u>	<u>(7,109)</u>
<b>Net increase in cash and cash equivalents</b>	936,935	448,186	250,246
<b>Cash and cash equivalents, beginning of period</b>	1,606,549	1,158,363	908,117
<b>Cash and cash equivalents, end of period</b>	<u>\$ 2,543,484</u>	<u>\$ 1,606,549</u>	<u>\$ 1,158,363</u>

See accompanying Notes.

salesforce.com, inc.

**Consolidated Statements of Cash Flows**

**Supplemental Cash Flow Disclosure**

(in thousands)

	Fiscal Year Ended January 31,		
	2018	2017	2016
<b>Supplemental cash flow disclosure:</b>			
Cash paid during the period for:			
Interest .....	\$ 40,340	\$ 54,999	\$ 37,954
Income taxes, net of tax refunds .....	\$ 53,234	\$ 36,388	\$ 31,462
<b>Non-cash investing and financing activities:</b>			
Fixed assets acquired under capital leases .....	\$ 4,038	\$ 585	\$ 12,948
Building—leased facility acquired under financing obligation .....	\$ 0	\$ 0	\$ 77,057
Fair value of loan assumed on 50 Fremont .....	\$ 0	\$ 0	\$ 198,751
Fair value of equity awards assumed .....	\$ 0	\$ 103,267	\$ 0
Fair value of common stock issued as consideration for business combinations .....	\$ 12,145	\$ 1,088,917	\$ 0
Increase (decrease) to non-cash equity liability .....	\$(68,355)	\$ 68,355	\$ 0

See accompanying Notes.

**Notes to Consolidated Financial Statements**

**1. Summary of Business and Significant Accounting Policies**

***Description of Business***

Salesforce.com, inc. (the “Company”) is a leading provider of enterprise software, delivered through the cloud, with a focus on customer relationship management, or CRM. The Company introduced its first CRM solution in 2000, and has since expanded its service offerings into new areas and industries with new editions, features and platform capabilities.

The Company’s core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things (“IoT”) and artificial intelligence technologies.

The Company’s Customer Success Platform is a comprehensive portfolio of service offerings providing sales force automation, customer service and support, marketing automation, digital commerce, community management, industry-specific solutions, analytics, application development, IoT integration, collaborative productivity tools, an enterprise cloud marketplace which the Company refers to as the AppExchange, and its professional cloud services.

***Fiscal Year***

The Company’s fiscal year ends on January 31. References to fiscal 2018, for example, refer to the fiscal year ending January 31, 2018.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”) requires management to make estimates and assumptions in the Company’s consolidated financial statements and notes thereto.

Significant estimates and assumptions made by management include the determination of:

- the best estimate of selling price of the deliverables included in multiple deliverable revenue arrangements;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the recognition, measurement and valuation of current and deferred income taxes;
- the fair value of certain stock awards issued;
- the useful lives of intangible assets, property and equipment and building and structural components; and
- the valuation of strategic investments and the determination of other-than-temporary impairments.

Actual results could differ materially from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the result of which forms the basis for making judgments about the carrying values of assets and liabilities.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

## *Segments*

The Company operates 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 is the chief executive officer, in deciding how to allocate resources and assessing performance. Over the past few years, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments of the enterprise cloud computing market. While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, the Company's business operates in one operating segment because the majority of the Company's offerings operate on a single platform and are deployed in an identical way, and the Company's chief operating decision maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

## *Concentrations of Credit Risk and Significant Customers*

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. In addition, in connection with the Company's Convertible 0.25% Senior Notes (as defined in Note 8 "Debt"), which were issued in March 2013, the Company entered into convertible note hedge transactions with respect to its common stock, which are exposed to concentrations of credit risk. Collateral is not required for accounts receivable or the note hedge transactions. The Company maintains an allowance for its doubtful accounts receivable. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts. Receivables are written-off and charged against its recorded allowance when the Company has exhausted collection efforts without success.

No single customer accounted for more than five percent of accounts receivable at January 31, 2018 and January 31, 2017. No single customer accounted for five percent or more of total revenue during fiscal 2018, 2017 and 2016.

## *Geographic Locations*

As of January 31, 2018 and 2017, assets located outside the Americas were 16 percent and 12 percent of total assets, respectively. As of January 31, 2018 and 2017, assets located in the United States were 83 percent and 86 percent of total assets, respectively.

Revenues by geographical region are as follows (in thousands):

	Fiscal Year Ended January 31,		
	2018	2017	2016
Americas . . . . .	\$ 7,579,116	\$6,224,971	\$4,910,745
Europe . . . . .	1,903,524	1,373,547	1,162,808
Asia Pacific . . . . .	997,372	793,466	593,663
	<u>\$10,480,012</u>	<u>\$8,391,984</u>	<u>\$6,667,216</u>

Revenues by geography are determined based on the region of the Salesforce contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent, 96 percent and 95 percent during fiscal 2018, 2017 and 2016, respectively. No other country represented more than ten percent of total revenue during the fiscal 2018, 2017 and 2016.

### ***Revenue Recognition***

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing the Company's 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.

The Company commences 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.

The Company's subscription service arrangements are non-cancelable and do not contain refund-type provisions.

### ***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 the Company's 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 Company's professional services contracts are either on a time and materials, fixed fee or subscription basis. These revenues are recognized as the services are rendered for time and materials contracts, when the milestones are achieved and accepted by the customer or on a proportional performance basis for fixed price contracts and ratably over the contract term for subscription professional services contracts. The milestone method for revenue recognition is used when there is substantive uncertainty at the date the contract is entered into whether the milestone will be achieved. Training revenues are recognized as the services are performed.

### ***Multiple Deliverable Arrangements***

The Company enters into arrangements with multiple deliverables that generally include multiple subscriptions, premium support and professional services. If the deliverables have standalone value at contract inception, the Company accounts for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, the Company considers 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, the Company has 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. The Company determines the relative selling price for a deliverable based on its vendor-specific objective

evidence of selling price (“VSOE”), if available, or its best estimate of selling price (“BESP”), if VSOE is not available. The Company has determined that third-party evidence of selling price (“TPE”) is not a practical alternative due to differences in its 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, the Company has established VSOE as a consistent number of standalone sales of these deliverables have been priced within a reasonably narrow range. The Company has not established VSOE for its subscription services due to lack of pricing consistency, the introduction of new services and other factors. Accordingly, the Company uses its BESP to determine the relative selling price for its subscription services.

The Company determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company’s discounting practices, the size and volume of the Company’s transactions, the customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made through consultation with and approval by the Company’s management, taking into consideration the go-to-market strategy. As the Company’s go-to-market strategies evolve, the Company may modify its 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 services described above and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual installments. The deferred revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, dollar size and new business linearity within the quarter.

### ***Deferred Commissions***

Deferred commissions are the incremental costs that are directly associated with non-cancelable subscription contracts with customers and consist of sales commissions paid to the Company’s direct sales force.

The commissions are deferred and amortized over the non-cancelable terms of the related customer contracts, which are typically 12 to 36 months. The commission payments are paid in full the month after the customer’s service commences and 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. The Company believes 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. Amortization of deferred commissions is included in marketing and sales expense in the accompanying consolidated statements of operations.

During fiscal 2018, the Company deferred \$799.3 million of commission expenditures and amortized \$464.7 million to marketing and sales expense. During the same period a year ago, the Company deferred \$462.0 million of commission expenditures and amortized \$371.5 million to marketing and sales expense. Deferred commissions on the Company’s consolidated balance sheets totaled \$874.3 million at January 31, 2018 and \$539.6 million at January 31, 2017.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are stated at fair value.

### ***Marketable Securities***

The Company considers all of its marketable debt securities as available for use in current operations, including those with maturity dates beyond one year, and therefore classifies these securities within current assets on the consolidated balance sheets. Securities are classified as available for sale and are carried at fair value, with the change in unrealized gains and losses, net of tax, reported as a separate component on the consolidated statements of comprehensive income until realized. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. Declines in fair value judged to be other-than-temporary on securities available for sale are included as a reduction to investment income. To determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value and its intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. For the purposes of computing realized and unrealized gains and losses, the cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of investment income.

### ***Strategic Investments***

The Company holds certain marketable equity and non-marketable debt and equity securities within its strategic investments portfolio. Marketable equity securities are measured using quoted prices in their respective active markets, non-marketable debt securities are recorded at their estimated fair value and the non-marketable equity securities are recorded at cost.

Marketable equity securities and non-marketable debt securities, which consist of debt investments in privately held companies, are recorded at fair value with changes in fair value recorded through accumulated other comprehensive income. Equity investments without readily determinable fair values for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting. Under the cost method of accounting, the non-marketable securities are carried at cost and are adjusted only for other-than-temporary impairments, certain distributions and additional investments. These investments are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity. The estimated fair value is based on quantitative and qualitative factors including, but not limited to, subsequent financing activities by the investee and projected discounted cash flows.

The carrying value of the Company's strategic investments is impacted by various events such as entering into new investments, dispositions due to acquisitions, fair market value adjustments or initial public offerings. The cash inflows from exits and cash outflows for new investments are disclosed within the investing activities section of the statement of cash flows and any realized gains or losses are recorded within the operating activities of the statements of cash flows for each of the respective fiscal quarter periods.

### ***Derivative Financial Instruments***

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in the Euro, British Pound Sterling, Japanese Yen, Canadian Dollar and Australian Dollar. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. As of January 31, 2018 and 2017, the outstanding foreign currency derivative contracts were recorded at fair value on the consolidated balance sheets.

Foreign currency derivative contracts are marked-to-market at the end of each reporting period with gains and losses recognized as other expense to offset the gains or losses resulting from the settlement or remeasurement of



the underlying foreign currency denominated receivables and payables. While the contract or notional amount is often used to express the volume of foreign currency derivative contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the agreements exceed the obligations of the Company to the counterparties.

***Fair Value Measurement***

The Company measures its cash and cash equivalents, marketable securities and foreign currency derivative contracts at fair value. The additional disclosures regarding the Company's fair value measurements are included in Note 4 "Fair Value Measurement."

***Property and Equipment***

Property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of those assets as follows:

Computers, equipment and software . . .	3 to 9 years
Furniture and fixtures . . . . .	5 years
Leasehold improvements . . . . .	Shorter of the estimated lease term or 10 years
Building and structural components . . .	Average weighted useful life of 32 years
Building - leased facility . . . . .	27 years
Building improvements . . . . .	10 years

When assets are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from their respective accounts and any loss on such retirement is reflected in operating expenses.

***Capitalized Software Costs***

The Company capitalizes costs related to its enterprise cloud computing services and certain projects for internal use incurred during the application development stage. 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, which is generally three to five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

***Intangible Assets acquired through Business Combinations***

Intangible assets are amortized over their estimated useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization.

***Impairment Assessment***

The Company evaluates intangible assets and long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. This includes but is not limited to significant adverse changes in business climate, market conditions, or other events that indicate an asset's carrying amount may not be recoverable. Recoverability of these assets is measured by comparing the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, the carrying amount of such assets is reduced to fair value.

The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during its fourth quarter of each fiscal year or more often if and when circumstances indicate that goodwill may not be recoverable.

There was no impairment of intangible assets, long-lived assets or goodwill during fiscal 2018, 2017 and 2016.

### ***Business Combinations***

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

In the event the Company acquires an entity with which the Company has a preexisting relationship, the Company will recognize a gain or loss to settle that relationship as of the acquisition date, which is recorded in other income (expense) within the statements of operations. In the event that the Company acquires an entity in which the Company previously held a strategic investment, the difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss and disclosed separately within the statements of operations.

### ***Leases and Asset Retirement Obligations***

The Company categorizes leases at their inception as either operating or capital leases. In certain lease agreements, the Company may receive rent holidays and other incentives. The Company recognizes lease costs on a straight-line basis once control of the space is achieved, without regard to deferred payment terms such as rent holidays that defer the commencement date of required payments. Additionally, incentives received are treated as a reduction of costs over the term of the agreement.

The Company establishes assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are depreciated over the lease period to operating expense.

In the event the Company is the deemed owner for accounting purposes during construction, the Company records assets and liabilities for the estimated construction costs incurred under build-to-suit lease arrangements to the extent it is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease.

The Company additionally has entered into subleases for unoccupied leased office space. To the extent there are losses associated with the sublease, they are recognized in the period the sublease is executed. Gains are recognized over the sublease life. Any sublease payments received in excess of the straight-line rent payments for the sublease are recorded in other income (expense).

### ***Accounting for Stock-Based Expense***

The Company recognizes stock-based expenses related to stock options and restricted stock awards on a straight-line basis, net of estimated forfeitures, over the requisite service period of the awards, which is generally

the vesting term of four years. The Company recognizes stock-based expenses related to shares issued pursuant to its Amended and Restated 2004 Employee Stock Purchase Plan (“ESPP” or “2004 Employee Stock Purchase Plan”) on a straight-line basis over the offering period, which is 12 months. The ESPP allows employees to purchase shares of the Company’s common stock at a 15 percent discount and also allows employees to reduce their percentage election once during a six month purchase period (December 15 and June 15 of each fiscal year), but not increase that election until the next one-year offering period. The ESPP also includes a re-set provision for the purchase price if the stock price on the purchase date is less than the stock price on the offering date.

Stock-based expenses related to performance share grants are measured based on grant date fair value and expensed on a straight-line basis over the service period of the awards, which is generally the vesting term of three years.

The Company, at times, grants unvested restricted shares to employee stockholders of certain acquired companies in lieu of cash consideration. These awards are generally subject to continued post-acquisition employment. Therefore, the Company accounts for them as post-acquisition stock-based expense. The Company recognizes stock-based expense equal to the grant date fair value of the restricted stock awards on a straight-line basis over the requisite service period of the awards, which is generally four years.

### ***Advertising Expenses***

Advertising is expensed as incurred. Advertising expense was \$372.9 million, \$350.3 million and \$315.6 million for fiscal 2018, 2017 and 2016, respectively.

### ***Income Taxes***

The Company uses 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 laws is recognized in the consolidated statements of operations in the period that includes the enactment date.

The Company’s tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes 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, solely based on its 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. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in the 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. The Company regularly reviews 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. The Company’s judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans and/or tax planning strategies. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.

In December 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law, significantly changing income tax law that affects U.S corporations. Key changes included a corporate tax rate reduction from

35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S. international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. The Company is required to recognize the effects of the tax law changes in the period of enactment, including the determination of the transition tax and the re-measurement of deferred taxes as well as to re-assess the realizability of the deferred tax assets. Subsequent to the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows companies to record provisional amounts related to the effects of the Tax Act during a measurement period not to extend beyond one year from the enactment date. Due to the timing of the Tax Act and additional guidance and interpretations that may be issued by the U.S. Treasury Department, the Internal Revenue Service (“IRS”) and other standard-setting bodies in the future, the Company has not completed its analysis of the income tax effects of the Tax Act. The provisional estimates will be adjusted during the measurement period defined under SAB 118, based upon the Company’s ongoing analysis of its data and tax positions along with new guidance from regulators and interpretations of the law.

### ***Foreign Currency Translation***

The functional currency of the Company’s major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component on the consolidated statements of comprehensive income. Foreign currency transaction gains and losses are included in Other income (expense) in the consolidated statements of operations for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

### ***Warranties and Indemnification***

The Company’s enterprise cloud computing services are typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with the Company’s online help documentation under normal use and circumstances.

The Company’s arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party’s intellectual property rights. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any material liabilities related to such obligations in the accompanying consolidated financial statements.

The Company has also agreed to indemnify its directors and executive officers for costs associated with any fees, expenses, judgments, fines and settlement amounts incurred by any of these persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person’s service as a director or officer, including any action by the Company, arising out of that person’s services as the Company’s director or officer or that person’s services provided to any other company or enterprise at the Company’s request. The Company maintains director and officer insurance coverage that would generally enable the Company to recover a portion of any future amounts paid. The Company may also be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

### ***New Accounting Pronouncements Adopted in Fiscal 2018***

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2017-01, “Business Combinations (Topic 805) Clarifying the Definition of a Business” (“ASU 2017-01”) which amended the existing FASB Accounting Standards Codification. The standard provides additional guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including

acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for fiscal 2019 with early adoption permitted. The Company early adopted the standard in the first quarter of fiscal 2018 on a prospective basis. Since the Company has not acquired any material businesses since the start of the year, this standard has had no impact on the Company's financial statements.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09") which amended the existing FASB Accounting Standards Codification. The standard provides clarity and reduces the cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. ASU 2017-09 is effective for fiscal 2019 with early adoption permitted. The Company early adopted the standard in the second quarter of fiscal 2018 on a prospective basis and this standard has had no impact on the Company's financial statements.

#### ***Accounting Pronouncements Pending Adoption***

In May 2014, the 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 and replaces the existing revenue recognition guidance with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. ASU 2014-09, as amended, will be effective as of the beginning of fiscal 2019, including interim periods within that reporting period.

The Company plans to adopt the standard using the full retrospective method to restate each prior reporting period presented. The Company does not expect the adoption of ASU 2014-09 to have any impact on its total cash flows from operating, investing or financing activities.

#### ***Revenue pursuant to ASU 2014-09***

The Company is continuing to assess the impact of adopting ASU 2014-09 on its financial position, results of operations and related disclosures and believes that the impact is not material.

The Company believes that the new standard will impact the following policies and disclosures:

- removal of the current limitation on contingent revenue will result in revenue being recognized earlier for certain contracts;
- allocation of subscription and support revenue across different clouds and to professional services revenue;
- estimation of variable consideration for arrangements with overage fees;
- required disclosures including disaggregation of revenues, information about the remaining transaction price and when the Company expects to recognize revenue; and
- accounting for deferred commissions including costs that qualify for deferral and the amortization period.

#### ***Capitalized costs to acquire a contract pursuant to ASU 2014-09***

The accounting for capitalized costs to acquire a contract under the new standard is significantly different than the Company's current accounting for deferred commissions. The new guidance results in the capitalization of significantly more costs and longer amortization lives. Under the Company's current accounting, the Company only capitalizes sales commissions that have a direct relationship to a specific new revenue contract. Currently, payments made to those employees not directly related to the sale of a new contract or those related to any

renewals, including the associated fringe benefits and payroll taxes, and partner referral fees are not capitalized. Additionally, all amounts capitalized under the Company's current policy are amortized over the specific contract terms of the underlying new revenue arrangements, which were typically 12 to 36 months.

Under the new standard, the Company will capitalize incremental costs of acquiring a non-cancelable subscription and support revenue contract. The capitalized amounts will consist primarily of sales commissions paid to the Company's direct sales force. Capitalized amounts will also include (1) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, (2) commissions paid to employees upon renewals of subscription and support contracts, (3) the associated payroll taxes and fringe benefit costs associated with the payments to the Company's employees, and to a lesser extent (4) success fees paid to partners in emerging markets where the Company has a limited presence.

Capitalized costs related to new revenue contracts will be amortized on a straight-line basis over four years, which, although longer than the typical initial contract period, reflects the average period of benefit, including expected contract renewals. In arriving at this average period of benefit, the Company evaluated both qualitative and quantitative factors, including the estimated life cycles of its offerings and its customer attrition. Additionally, the Company will amortize capitalized costs for renewals and success fees paid to partners over two years.

While the Company has not yet finalized its assessment of the impact the new commission accounting policy will have on its financial position and results of operations, the Company believes it will be material to both its balance sheet and statement of operations due to the capitalization of additional costs and the longer period of amortization.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, "Financial Instrument-Overall (Subtopic 825-10)" ("ASU 2016-01"), which requires entities to measure equity instruments at fair value and recognize any changes in fair value within the statement of operations. Under the new standard, the Company will record its publicly traded equity investments at fair value on a quarterly basis and record the change within the statement of operations. Previously, such adjustments were recorded in other comprehensive income. The guidance provides for electing the measurement alternative or defaulting to the fair value option for equity investments that do not have readily determinable fair values. The Company plans to elect the measurement alternative for its equity investments in privately held companies, which are included in strategic investments in the accompanying consolidated balance sheets. These investments will be measured at cost, less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which will be recorded within the statement of operations. The determination of whether a transaction is for a similar investment will require significant management judgment including consideration of the rights and obligations between the investments and the extent to which those differences would affect the fair values of those investments with additional consideration for the stage of development of the investee company. In addition, the determination of fair value for those investments with orderly transactions for similar investments may require significant assumptions and complex valuation models, all of which requires management judgment due to the absence of market prices and lack of liquidity.

The new standard is effective as of the beginning of fiscal 2019, including interim periods within that reporting period, on a prospective basis for nonmarketable equity securities and a modified retrospective basis for publicly held equity investments. The adoption of ASU 2016-01 will impact the Company's strategic investments portfolio, which consists of approximately \$24.5 million in publicly traded equity investments and \$599.3 million in privately held equity investments, as of January 31, 2018, both of which are recorded in strategic investments within the balance sheet. Upon adoption of ASU 2016-01, the Company will reclassify \$13.0 million, excluding the tax impact, from accumulated other comprehensive loss on the balance sheet to accumulated deficit. This amount reflects unrealized gains recorded on the Company's publicly traded equity

investments as of January 31, 2018. Refer to Note 2, “Investments,” for additional details. The new standard could have a material impact to the Company’s consolidated financial statements, including additional volatility to the Company’s statements of operations in future periods, due to changes in market prices of the Company’s investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of its investments in non-marketable securities.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (“ASU 2016-16”), which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The new standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted as of the beginning of a fiscal year. The Company plans to adopt the new standard in its first quarter of fiscal 2019. Based on transactions up to January 31, 2018, the Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), which requires lessees to record most leases on their balance sheets but recognize the expenses on their statements of operations in a manner similar to current accounting rules. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard is effective for interim and annual periods beginning after December 15, 2018 on a modified retrospective basis. The Company is in the process of implementing changes to its systems, processes and controls, in conjunction with its review of existing lease agreements, in order to adopt the new standard in its first quarter of fiscal 2020. The Company expects its leases designated as operating leases in Note 13, “Commitments,” will be reported on the consolidated balance sheets upon adoption. The Company is currently evaluating the impact to its consolidated financial statements as it relates to other aspects of the business.

### ***Reclassifications***

Certain reclassifications to fiscal 2017 and 2016 balances were made to conform to the current period presentation in the consolidated balance sheets, consolidated statement of operations and consolidated statements of cash flows. These reclassifications include cost of revenues-subscription and support, cost of revenues-professional services and other, and purchases and sales of strategic investments.

## **2. Investments**

### ***Marketable Securities***

At January 31, 2018, marketable securities consisted of the following (in thousands):

<u>Investments classified as Marketable Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Corporate notes and obligations .....	\$1,222,752	\$877	\$ (7,264)	\$1,216,365
U.S. treasury securities .....	196,224	2	(1,926)	194,300
Mortgage backed obligations .....	99,994	7	(1,250)	98,751
Asset backed securities .....	251,197	38	(1,206)	250,029
Municipal securities .....	53,019	1	(703)	52,317
Foreign government obligations .....	86,623	0	(978)	85,645
U.S. agency obligations .....	19,256	1	(131)	19,126
Commercial Paper .....	11,429	0	0	11,429
Covered bonds .....	50,530	13	(284)	50,259
Total marketable securities .....	<u>\$1,991,024</u>	<u>\$939</u>	<u>\$(13,742)</u>	<u>\$1,978,221</u>

At January 31, 2017, marketable securities consisted of the following (in thousands):

<u>Investments classified as Marketable Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Corporate notes and obligations .....	\$321,284	\$ 887	\$(1,531)	\$320,640
U.S. treasury securities .....	62,429	68	(674)	61,823
Mortgage backed obligations .....	74,882	39	(669)	74,252
Asset backed securities .....	101,913	74	(197)	101,790
Municipal securities .....	33,523	35	(183)	33,375
Foreign government obligations .....	10,491	3	(36)	10,458
Total marketable securities .....	<u>\$604,522</u>	<u>\$1,106</u>	<u>\$(3,290)</u>	<u>\$602,338</u>

The contractual maturities of the investments classified as marketable securities are as follows (in thousands):

	<u>As of</u>	
	<u>January 31, 2018</u>	<u>January 31, 2017</u>
Due within 1 year .....	\$ 395,120	\$104,631
Due in 1 year through 5 years .....	1,578,738	494,127
Due in 5 years through 10 years .....	4,363	3,580
	<u>\$1,978,221</u>	<u>\$602,338</u>

As of January 31, 2018, the following marketable securities were in an unrealized loss position (in thousands):

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Corporate notes and obligations ...	\$ 910,294	\$ (6,435)	\$39,000	\$ (829)	\$ 949,294	\$ (7,264)
U.S. treasury securities .....	152,413	(1,658)	9,543	(268)	161,956	(1,926)
Mortgage backed obligations .....	76,929	(905)	18,763	(345)	95,692	(1,250)
Asset backed securities .....	193,262	(1,109)	11,484	(97)	204,746	(1,206)
Municipal securities .....	41,077	(550)	8,469	(153)	49,546	(703)
Foreign government obligations ...	79,526	(922)	6,119	(56)	85,645	(978)
U.S. agency obligations .....	15,375	(131)	0	0	15,375	(131)
Covered bonds .....	21,453	(186)	3,301	(98)	24,754	(284)
	<u>\$1,490,329</u>	<u>\$(11,896)</u>	<u>\$96,679</u>	<u>\$(1,846)</u>	<u>\$1,587,008</u>	<u>\$(13,742)</u>

The unrealized losses for each of the fixed rate marketable securities were less than \$0.3 million. The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of January 31, 2018, such as the Company's intent to hold and whether it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized basis. The Company expects to receive the full principal and interest on all of these marketable securities.



### ***Investment Income***

Investment income consists of interest income, realized gains and realized losses on the Company's cash, cash equivalents and marketable securities. The components of investment income are presented below (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest income . . . . .	\$36,480	\$21,901	\$14,146
Realized gains . . . . .	940	7,858	3,287
Realized losses . . . . .	(1,572)	(2,385)	(2,092)
Total investment income . . . . .	<u>\$35,848</u>	<u>\$27,374</u>	<u>\$15,341</u>

Reclassification adjustments out of accumulated other comprehensive income into investment income were immaterial for fiscal 2018, 2017 and 2016.

### ***Strategic Investments***

As of January 31, 2018, the Company had two investments in marketable equity securities with a fair value of \$24.5 million, which included an unrealized gain of \$13.0 million. As of January 31, 2017, the Company had six investments in marketable equity securities with a fair value of \$41.0 million, which included an unrealized gain of \$24.5 million. The change in the fair value of the investments in publicly held companies is recorded in the consolidated balance sheets within strategic investments and accumulated other comprehensive income (loss).

As of January 31, 2018 and 2017, the carrying value of the Company's non-marketable debt and equity securities was \$652.8 million and \$526.0 million, respectively. The estimated fair value of the non-marketable debt and equity securities was approximately \$912.0 million and \$758.3 million as of January 31, 2018 and 2017, respectively.

The Company sold a portion of its publicly-held investments in fiscal 2018, which resulted in a reclassification of previously unrealized gains from the statement of comprehensive income (loss) to other income (expense) in the statement of operations in the amount of \$58.6 million. This amount was not material in prior periods.

Strategic investments consisted of the following (in thousands):

<b>Description</b>	<b>Balance at beginning of year</b>	<b>Additions</b>	<b>Sales, dispositions and fair market value adjustments (1)</b>	<b>Balance at end of year</b>
Fiscal year ended January 31, 2018 . . . . .	\$566,953	\$216,438	\$(106,108)	\$677,283
Fiscal year ended January 31, 2017 . . . . .	\$520,721	\$110,329	\$ (64,097)	\$566,953

- (1) Amounts include the release of the cost-basis and the current unrealized gain or loss balance recorded in accumulated other comprehensive loss when shares of a publicly-held investment are sold, disposition-related reductions of a cost-basis investment if a privately-held company within the portfolio is acquired by another company, fair market value adjustments such as cost basis reductions related to impairments that are other-than-temporary and unrealized gains or losses related to investments held in publicly traded companies.

### 3. Derivatives

Details on outstanding foreign currency derivative contracts are presented below (in thousands):

	As of	
	<u>January 31, 2018</u>	<u>January 31, 2017</u>
Notional amount of foreign currency derivative contracts . . . . .	\$1,871,258	\$1,280,953
Fair value of foreign currency derivative contracts . . . . .	\$ 12,368	\$ 10,205

The fair value of the Company's outstanding derivative instruments not designated as hedging instruments are summarized below (in thousands):

	<u>Balance Sheet Location</u>	As of	
		<u>January 31, 2018</u>	<u>January 31, 2017</u>
<b>Derivative Assets</b>			
Foreign currency derivative contracts . . . . .	Prepaid expenses and other current assets	\$17,949	\$13,238
<b>Derivative Liabilities</b>			
Foreign currency derivative contracts . . . . .	Accounts payable, accrued expenses and other liabilities	\$ 5,581	\$ 3,033

Gains/losses on derivative instruments not designated as hedging instruments recorded in Other income (expense) in the consolidated statements of operations during fiscal 2018, 2017 and 2016, respectively, are summarized below (in thousands):

	Fiscal Year Ended January 31,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Foreign currency derivative contracts . . . . .	\$15,403	\$(86,239)	\$(25,786)

### 4. Fair Value Measurement

The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

**Level 1.** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2.** Significant other inputs that are directly or indirectly observable in the marketplace.

**Level 3.** Significant unobservable inputs which are supported by little or no market activity.

All of the Company's cash equivalents, marketable securities and foreign currency derivative contracts are classified within Level 1 or Level 2 because the Company's cash equivalents, marketable securities and foreign currency derivative contracts are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs.

The following table presents information about the Company’s assets and liabilities that are measured at fair value as of January 31, 2018 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of January 31, 2018
Cash equivalents (1):				
Time deposits . . . . .	\$ 0	\$ 542,756	\$ 0	\$ 542,756
Money market mutual funds . . . . .	1,389,165	0	0	1,389,165
Marketable securities:				
Corporate notes and obligations . . . . .	0	1,216,365	0	1,216,365
U.S. treasury securities . . . .	0	194,300	0	194,300
Mortgage backed obligations . . . . .	0	98,751	0	98,751
Asset backed securities . . . .	0	250,029	0	250,029
Municipal securities . . . . .	0	52,317	0	52,317
Foreign government obligations . . . . .	0	85,645	0	85,645
U.S. agency obligations . . . .	0	19,126	0	19,126
Commercial Paper . . . . .	0	11,429	0	11,429
Covered bonds . . . . .	0	50,259	0	50,259
Foreign currency derivative contracts (2) . . . . .	0	17,949	0	17,949
Total assets . . . . .	<u>\$1,389,165</u>	<u>\$2,538,926</u>	<u>\$ 0</u>	<u>\$3,928,091</u>
Liabilities:				
Foreign currency derivative contracts (3) . . . . .	0	5,581	0	5,581
Total liabilities . . . . .	<u>\$ 0</u>	<u>\$ 5,581</u>	<u>\$ 0</u>	<u>\$ 5,581</u>

- (1) Included in “cash and cash equivalents” in the accompanying consolidated balance sheet as of January 31, 2018, in addition to \$611.6 million of cash.
- (2) Included in “prepaid expenses and other current assets” in the accompanying consolidated balance sheet as of January 31, 2018.
- (3) Included in “accounts payable, accrued expenses and other liabilities” in the accompanying consolidated balance sheet as of January 31, 2018.

The following table presents information about the Company’s assets and liabilities that are measured at fair value as of January 31, 2017 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of January 31, 2017
Cash equivalents (1):				
Time deposits . . . . .	\$ 0	\$ 25,100	\$ 0	\$ 25,100
Money market mutual funds . . . . .	956,479	0	0	956,479
Marketable securities:				
Corporate notes and obligations . . . . .	0	320,640	0	320,640
U.S. treasury securities . . . .	0	61,823	0	61,823
Mortgage backed obligations . . . . .	0	74,252	0	74,252
Asset backed securities . . . .	0	101,790	0	101,790
Municipal securities . . . . .	0	33,375	0	33,375
Foreign government obligations . . . . .	0	10,458	0	10,458
Foreign currency derivative contracts (2) . . . . .	<u>0</u>	<u>13,238</u>	<u>0</u>	<u>13,238</u>
Total assets . . . . .	<u>\$956,479</u>	<u>\$640,676</u>	<u>\$ 0</u>	<u>\$1,597,155</u>
Liabilities:				
Foreign currency derivative contracts (3) . . . . .	<u>0</u>	<u>3,033</u>	<u>0</u>	<u>3,033</u>
Total liabilities . . . . .	<u>\$ 0</u>	<u>\$ 3,033</u>	<u>\$ 0</u>	<u>\$ 3,033</u>

- (1) Included in “cash and cash equivalents” in the accompanying consolidated balance sheet as of January 31, 2017, in addition to \$625.0 million of cash.
- (2) Included in “prepaid expenses and other current assets” in the accompanying consolidated balance sheet as of January 31, 2017.
- (3) Included in “accounts payable, accrued expenses and other liabilities” in the accompanying consolidated balance sheet as of January 31, 2017.

## 5. Property and Equipment

### *Property and Equipment*

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

	As of	
	January 31, 2018	January 31, 2017
Land . . . . .	\$ 183,888	\$ 183,888
Buildings and building improvements . . . . .	626,062	621,377
Computers, equipment and software . . . . .	1,628,827	1,440,986
Furniture and fixtures . . . . .	139,299	112,564
Leasehold improvements . . . . .	824,470	627,069
	<u>3,402,546</u>	<u>2,985,884</u>
Less accumulated depreciation and amortization . . . . .	<u>(1,456,019)</u>	<u>(1,198,350)</u>
	<u>\$ 1,946,527</u>	<u>\$ 1,787,534</u>

Depreciation and amortization expense totaled \$372.8 million, \$322.8 million, and \$302.0 million during fiscal 2018, 2017 and 2016, respectively. During fiscal 2018, the Company retired approximately \$122.3 million of property and equipment that had been fully depreciated.

Computers, equipment and software at January 31, 2018 and 2017 included a total of \$709.4 million and \$729.0 million acquired under capital lease agreements, respectively. Accumulated amortization relating to computers, equipment and software acquired under capital leases totaled \$449.6 million and \$386.9 million, respectively, at January 31, 2018 and 2017. Amortization of assets acquired under capital leases is included in depreciation and amortization expense.

### *Land Sales*

In October 2015, the Company sold approximately 8.8 net acres of undeveloped real estate and the associated perpetual parking rights in San Francisco, California, which were classified as held for sale. The total proceeds from the sale were \$157.1 million, of which the Company received \$127.1 million in October 2015 and previously received a nonrefundable deposit in the amount of \$30.0 million during April 2014. The Company recognized a gain of \$21.8 million, net of closing costs, on the sale of this portion of the Company's land and building improvements and perpetual parking rights.

### *Building - 350 Mission*

In December 2013, the Company entered into a lease agreement for approximately 445,000 rentable square feet of office space at 350 Mission Street ("350 Mission") in San Francisco, California, which is the total office space available in the building. As a result of the Company's involvement during the construction period, the Company is considered for accounting purposes to be the owner of 350 Mission. As a result, the Company has capitalized the construction costs as Building with a corresponding current and noncurrent financing obligation liability and has accounted for the underlying land implicitly as an operating lease. Construction was completed in fiscal 2017. The Company capitalized \$178.8 million of construction costs, based on the construction costs incurred by the landlord, and recorded a corresponding current and noncurrent financing obligation liability of \$20.0 million and \$198.2 million, respectively. The total expected financing obligation in the form of minimum lease payments inclusive of the amounts currently recorded is \$300.9 million, including interest (see Note 13 "Commitments" for future commitment details). The obligation will be settled through monthly lease payments to the landlord, which commenced in October 2015. To the extent that operating expenses for 350 Mission are material, the Company, as the deemed accounting owner, will record the operating expenses.

## 6. Business Combinations

### Fiscal Year 2018

During fiscal 2018, the Company acquired two companies for an aggregate of \$37.6 million in cash and equity, net of cash acquired, and has included the financial results of these companies in its consolidated financial statements from the dates of acquisition. The transactions were not material to the Company and the costs associated with the acquisitions were not material. The Company accounted for the transactions as business combinations. In allocating the purchase consideration based on estimated fair values, the Company recorded \$2.7 million of intangible assets and \$34.6 million of goodwill. The majority of the goodwill balance associated with these business combinations is deductible for U.S. income tax purposes.

### Fiscal Year 2017

#### *Krux*

In November 2016, the Company acquired the outstanding stock of Krux Digital, Inc. (“Krux”), for consideration consisting of cash, common stock, and equity awards assumed. Krux is a leading data management platform that unifies, segments and activates audiences to increase engagement with users, prospects and customers. The Company has included the financial results of Krux in the consolidated financial statements from the date of acquisition, which have not been material to date. The transaction costs associated with the acquisition were not material.

The acquisition date fair value consideration transferred for Krux was approximately \$741.8 million, which consisted of the following (in thousands, except for share data):

	<u>Fair Value</u>
Cash .....	\$367,995
Common stock (4,210,773 shares) .....	317,703
Fair value of stock options and restricted stock awards assumed .....	56,068
Total .....	<u>\$741,766</u>

The fair value of stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.2 was applied to convert Krux’s outstanding equity awards for Krux’s common stock into equity awards for shares of the Company’s common stock.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<u>Fair Value</u>
Cash and cash equivalents .....	\$ 17,883
Other current and noncurrent tangible assets .....	12,418
Intangible assets .....	86,000
Goodwill .....	642,489
Deferred revenue .....	(7,037)
Other liabilities, current and noncurrent .....	(9,308)
Deferred tax liability .....	(679)
Net assets acquired .....	<u>\$741,766</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets.

The following table sets forth the components of identifiable intangible assets acquired (in thousands) and their estimated useful lives as of the date of acquisition.

	<u>Fair Value</u>	<u>Useful Life</u>
Developed technology . . . . .	\$75,000	3 years
Customer relationships . . . . .	10,000	9 years
Other intangibles . . . . .	<u>1,000</u>	2 years
Total intangible assets subject to amortization . . .	<u>\$86,000</u>	

The amount recorded for developed technology represents the estimated fair value of Krux’s data management platform technology. The amount recorded for customer relationships represents the fair values of the underlying relationship with Krux customers. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating Krux’s technology with the Company’s other offerings. The goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards for shares of Krux’s common stock with a fair value of \$104.4 million, of which \$56.1 million was allocated to the consideration transferred.

***BeyondCore***

In September 2016, the Company acquired the outstanding stock of BeyondCore, Inc. (“BeyondCore”), for consideration consisting of cash, common stock, and equity awards assumed. BeyondCore is a smart data discovery technology company that automatically explores millions of variable combinations from structured data sources. The Company has included the financial results of BeyondCore in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material.

The acquisition date fair value consideration transferred for BeyondCore was approximately \$106.6 million, which consisted of the following (in thousands, except for share data):

	<u>Fair Value</u>
Cash . . . . .	\$ 21,053
Common stock (1,073,432 shares) . . . . .	81,484
Fair value of stock options and restricted stock awards assumed . . . . .	<u>4,061</u>
Total . . . . .	<u>\$106,598</u>

The fair value of stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.0464 was applied to convert BeyondCore’s outstanding equity awards for BeyondCore’s common stock into equity awards for shares of the Company’s common stock.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<u>Fair Value</u>
Cash and cash equivalents . . . . .	\$ 2,046
Other current and noncurrent tangible assets . . . . .	462
Intangible assets . . . . .	15,600
Goodwill . . . . .	90,794
Deferred revenue . . . . .	(818)
Other liabilities, current and noncurrent . . . . .	(923)
Deferred tax liability . . . . .	<u>(563)</u>
Net assets acquired . . . . .	<u>\$106,598</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets.

The following table sets forth the components of identifiable intangible assets acquired (in thousands) and their estimated useful lives as of the date of acquisition.

	<u>Fair Value</u>	<u>Useful Life</u>
Developed technology . . . . .	\$14,900	6 years
Customer relationships . . . . .	<u>700</u>	2 years
Total intangible assets subject to amortization . . .	<u>\$15,600</u>	

The amount recorded for developed technology represents the estimated fair value of BeyondCore’s smart data analytics technology. The amount recorded for customer relationships represents the fair values of the underlying relationships with BeyondCore customers. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating BeyondCore’s technology with the Company’s other offerings. The goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards for shares of BeyondCore’s common stock with a fair value of \$8.6 million, of which \$4.1 million was allocated to the consideration transferred.

***Quip***

In August 2016, the Company acquired the outstanding stock of Quip, Inc. (“Quip”) for consideration consisting of cash, common stock, fair value of equity awards assumed, as well as fair value of the Company’s pre-existing relationship. Quip combines content and communication to create living documents to allow work-teams to write, edit and discuss documents, spreadsheets and checklists in a single experience. The Company acquired Quip for its product offerings and employees. The Company has included the financial results of Quip in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material.



The acquisition date fair value consideration transferred for Quip was approximately \$412.0 million, which consisted of the following (in thousands, except for share data):

	<u>Fair Value</u>
Cash .....	\$ 2,711
Common stock (4,796,152 shares) .....	385,131
Fair value of stock options and restricted stock awards assumed .....	22,345
Fair value of pre-existing relationship .....	<u>1,833</u>
Total .....	<u>\$412,020</u>

The fair value of stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.5514 was applied to convert Quip's outstanding equity awards for Quip's common stock into equity awards for shares of the Company's common stock.

The Company had a \$1.0 million, or approximately 0.3 percent, noncontrolling equity investment in Quip prior to the acquisition. The acquisition date fair value of the Company's previously held equity interest was approximately \$1.8 million and was included in the measurement of the consideration transferred. The Company recognized a gain of approximately \$0.8 million as a result of remeasuring its prior equity interest in Quip held before the business combination. The gain is included in gains from acquisitions of strategic investments in the consolidated statement of operations.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<u>Fair Value</u>
Cash and cash equivalents .....	\$ 27,985
Other current and noncurrent tangible assets .....	556
Intangible assets .....	31,200
Goodwill .....	357,610
Other liabilities, current and noncurrent .....	(2,491)
Deferred tax liability .....	<u>(2,840)</u>
Net assets acquired .....	<u>\$412,020</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets.

The following table sets forth the components of identifiable intangible assets acquired (in thousands) and their estimated useful lives as of the date of acquisition.

	<u>Fair Value</u>	<u>Useful Life</u>
Developed technology .....	\$18,590	5 years
Customer relationships .....	12,460	10 years
Other purchased intangible assets .....	<u>150</u>	3 years
Total intangible assets subject to amortization .....	<u>\$31,200</u>	

The amount recorded for developed technology represents the estimated fair value of Quip's productivity technology. The amount recorded for customer relationships represents the fair values of the underlying

relationship with Quip customers. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating Quip’s technology with the Company’s other offerings. The goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards for shares of Quip’s common stock with a fair value of \$68.0 million, of which \$22.3 million was allocated to the consideration transferred.

***Demandware***

In July 2016, the Company acquired for cash the outstanding stock of Demandware, Inc. (“Demandware”), an industry-leading provider of enterprise cloud commerce solutions in the digital commerce market. The Company acquired Demandware to, among other things, expand the Company’s position in customer relationship management and to pursue the digital commerce market with the new Salesforce Commerce Cloud. The Company has included the financial results of Demandware in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were \$15.5 million and are recorded in general and administrative expense. The acquisition date fair value of the consideration transferred for Demandware was approximately \$2.9 billion, including the proceeds from the term loan of \$500.0 million (see Note 8, “Debt”), which consisted of the following (in thousands):

	<u>Fair Value</u>
Cash . . . . .	\$2,920,336
Fair value of stock options and restricted stock awards assumed . . . .	<u>9,344</u>
Total . . . . .	<u>\$2,929,680</u>

The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.9545 was applied to convert Demandware’s outstanding equity awards for Demandware’s common stock into equity awards for shares of the Company’s common stock.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<u>Fair Value</u>
Cash and cash equivalents . . . . .	\$ 139,259
Marketable securities . . . . .	37,230
Accounts receivable . . . . .	56,982
Other current assets . . . . .	13,545
Customer contract asset, noncurrent . . . . .	327,830
Intangible assets . . . . .	633,277
Property and equipment . . . . .	29,463
Other noncurrent assets . . . . .	4,579
Goodwill . . . . .	1,985,269
Accounts payable, accrued expenses and other liabilities . . .	(51,870)
Deferred revenue . . . . .	(22,647)
Other liabilities, noncurrent . . . . .	(12,935)
Deferred tax liability . . . . .	<u>(210,302)</u>
Net assets acquired . . . . .	<u>\$2,929,680</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	<u>Fair Value</u>	<u>Useful Life</u>
Developed technology . . . . .	\$242,550	2 to 5 years
Customer relationships . . . . .	384,590	3 to 10 years
Other purchased intangible assets . . . . .	<u>6,137</u>	3 to 10 years
Total intangible assets subject to amortization . . . . .	<u>\$633,277</u>	

Developed technology represents the fair value of Demandware’s e-commerce technology. Customer relationships represent the fair values of the underlying relationships with Demandware customers. Other purchased intangible assets also includes intangibles such as trademarks and favorable leases, which span over lease terms varying from 1 to 10 years. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating Demandware’s e-commerce technology with the Company’s other offerings. The majority of the goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards with a fair value of \$135.2 million, of which \$9.3 million was allocated to the purchase consideration.

The Demandware acquisition was significant to the Company’s consolidated financial statements. The amounts of revenue and earnings of Demandware included in the Company’s consolidated statement of operations from the acquisition date of July 11, 2016 through January 31, 2017 are as follows (in thousands):

Total revenues . . . . .	\$ 120,383
Pretax loss . . . . .	(102,524)
Net loss . . . . .	\$(103,149)

***SteelBrick***

In February 2016, the Company acquired the outstanding stock of SteelBrick, Inc. (“SteelBrick”) for consideration consisting of cash and common stock. SteelBrick is a next generation quote-to-cash platform, delivered 100 percent natively on the Salesforce platform, which offers applications, or apps, for automating the entire deal close process—from generating quotes and configuring orders to collecting cash. The Company has included the financial results of SteelBrick in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material.

The acquisition date fair value consideration transferred for SteelBrick was approximately \$314.8 million, which consisted of the following (in thousands, except for share data):

	<u>Fair Value</u>
Cash . . . . .	\$ 1,698
Common stock (4,288,447 shares) . . . . .	278,372
Fair value of stock options and restricted stock awards assumed . . . . .	10,989
Fair value of pre-existing relationship . . . . .	<u>23,726</u>
Total . . . . .	<u>\$314,785</u>

The fair value of stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.08 was applied to convert SteelBrick’s outstanding equity awards for SteelBrick’s common stock into equity awards for shares of the Company’s common stock.

The Company had a \$13.9 million, or approximately six percent, noncontrolling equity investment in SteelBrick prior to the acquisition. The acquisition date fair value of the Company's previously held equity interest was approximately \$23.7 million and is included in the measurement of the consideration transferred. The Company recognized a gain of approximately \$9.8 million as a result of remeasuring its prior equity interest in SteelBrick held before the business combination. The gain is included in gains from acquisitions of strategic investments on the Consolidated Statement of Operations.

The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	<u>Fair Value</u>
Cash and cash equivalents . . . . .	\$ 59,296
Other current and noncurrent tangible assets . . . . .	3,012
Customer contract asset, noncurrent . . . . .	6,954
Intangible assets . . . . .	49,160
Goodwill . . . . .	217,986
Deferred revenue . . . . .	(8,479)
Other liabilities, current and noncurrent . . . . .	(2,665)
Deferred tax liability . . . . .	<u>(10,479)</u>
Net assets acquired . . . . .	<u>\$314,785</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill.

The following table sets forth the components of identifiable intangible assets acquired (in thousands) and their estimated useful lives as of the date of acquisition.

	<u>Fair Value</u>	<u>Useful Life</u>
Developed technology . . . . .	\$30,700	4 years
Customer relationships . . . . .	17,110	7 years
Other purchased intangible assets . . . . .	<u>1,350</u>	1 year
Total intangible assets subject to amortization . . . . .	<u>\$49,160</u>	

The amount recorded for developed technology represents the estimated fair value of SteelBrick's quote-to-cash and billing technology. The amount recorded for customer relationships represents the fair values of the underlying relationship with SteelBrick customers. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating SteelBrick's quote-to-cash technology with the Company's other offerings. The majority of the goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards for shares of SteelBrick's common stock with a fair value of \$39.6 million, of which \$11.0 million was allocated to the consideration transferred.

***MetaMind***

In April 2016, the Company acquired MetaMind, Inc. ("MetaMind") for approximately \$32.8 million in cash, net of cash acquired. This amount includes amounts to be paid after an initial holdback period, and assumed equity awards. The primary reason for the acquisition was to extend the Company's intelligence in natural language processing and image recognition across all clouds. The Company has included the financial results of MetaMind, which have not been material to date, in its consolidated financial statements from the date of

acquisition. The transaction costs associated with the acquisition were not material. In allocating the purchase consideration for MetaMind based on estimated fair values, the Company recorded \$31.2 million of goodwill and \$1.9 million of identifiable intangible assets. The goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed equity awards for shares of MetaMind's common stock with a fair value of \$5.5 million, of which \$0.5 million was allocated to the purchase consideration.

The Company's chairman, who held a greater than ten percent ownership interest in MetaMind, received approximately \$6.0 million in total proceeds, subject to customary escrow amounts, in connection with this acquisition.

#### ***Other Fiscal 2017 Business Combinations***

During fiscal 2017, the Company acquired seven other companies for an aggregate of \$108.7 million in cash, net of cash acquired, and the Company has included the financial results of these companies in its consolidated financial statements from the respective dates of acquisition. These transactions, individually and in the aggregate, are not material to the Company. The costs associated with these acquisitions were not material. The Company accounted for these transactions as business combinations. In allocating the purchase consideration for each company based on estimated fair values, the Company recorded \$108.2 million of goodwill and \$34.2 million of identifiable intangible assets. Amounts allocated to the remaining acquired tangible assets and liabilities were not material. The majority of the goodwill balance associated with these transactions is not deductible for U.S. income tax purposes.

#### ***Fiscal 2016 Business Combinations***

During fiscal 2016, the Company acquired several companies, including the acquisition of the building and land at 50 Fremont, for an aggregate of \$697.7 million in cash, net of cash acquired. The Company has included the financial results of these companies in its consolidated financial statements from the respective dates of acquisition. The costs associated with these acquisitions were not material. The Company accounted for these transactions as business combinations. In allocating the purchase consideration for each company based on fair values, the Company recorded \$68.7 million of goodwill. Some of the goodwill balance associated with these transactions is deductible for U.S. income tax purposes.

In connection with the acquisition of 50 Fremont, the Company recognized a net non-cash gain totaling approximately \$36.6 million on the termination of the lease signed in January 2012.

## **7. Intangible Assets Acquired Through Business Combinations and Goodwill**

### ***Intangible assets acquired through business combinations***

Intangible assets acquired through business combinations are as follows (in thousands):

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Remaining Useful Life
	Jan 31, 2017	Additions and retirements, net (1)	Jan. 31, 2018	Jan 31, 2017	Expense and retirements, net (1)	Jan. 31, 2018	Jan 31, 2017	Jan. 31, 2018	
Acquired developed									
technology	\$1,092,161	\$(65,210)	\$1,026,951	\$(577,929)	\$ (99,459)	\$ (677,388)	\$ 514,232	\$349,563	2.8
Customer relationships	843,614	(12,870)	830,744	(254,035)	(104,773)	(358,808)	589,579	471,936	4.4
Other (2)	69,449	(16,339)	53,110	(59,886)	11,722	(48,164)	9,563	4,946	4.3
<b>Total</b>	<b>\$2,005,224</b>	<b>\$(94,419)</b>	<b>\$1,910,805</b>	<b>\$(891,850)</b>	<b>\$(192,510)</b>	<b>\$(1,084,360)</b>	<b>\$1,113,374</b>	<b>\$826,445</b>	<b>3.8</b>

(1) The Company retired \$96.1 million of fully depreciated intangible assets during fiscal 2018, of which \$65.2 million were included in acquired developed technology, \$14.6 million in customer relationships and \$16.3 million in other.

(2) Included in other are the trade names and trademarks, territory rights and other and 50 Fremont intangible assets.

Amortization of intangible assets and unfavorable lease liabilities, which are not reflected in the table above, resulting from business combinations for fiscal 2018, 2017 and 2016 was \$288.3 million, \$227.8 million and \$161.7 million, respectively.

The expected future amortization expense for intangible assets as of January 31, 2018 is as follows (in thousands):

<b>Fiscal Period:</b>	
Fiscal 2019 .....	\$266,186
Fiscal 2020 .....	224,990
Fiscal 2021 .....	169,433
Fiscal 2022 .....	111,305
Fiscal 2023 .....	35,134
Thereafter .....	<u>19,397</u>
Total amortization expense .....	<u><u>\$826,445</u></u>

### ***Goodwill***

Goodwill represents the excess of the purchase price in a business combination over the fair value of net assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually during the fourth quarter.

The changes in the carrying amounts of goodwill, which is generally not deductible for tax purposes, were as follows (in thousands):

Balance as of January 31, 2016 .....	\$3,849,937
Acquisitions .....	3,333,171
Adjustments of acquisition date fair values, including the effect of foreign currency translation .....	<u>80,738</u>
Balance as of January 31, 2017 .....	\$7,263,846
Acquisitions .....	34,625
Adjustments of acquisition date fair values, including the effect of foreign currency translation .....	<u>15,625</u>
Balance as of January 31, 2018 .....	<u><u>\$7,314,096</u></u>

## 8. Debt

The carrying values of our borrowings were as follows (in thousands):

<u>Instrument</u>	<u>Date of issuance</u>	<u>Maturity date</u>	<u>Effective interest rate for fiscal 2018</u>	<u>January 31, 2018</u>	<u>January 31, 2017</u>
0.25% Convertible					
Senior Notes . . . . .	March 2013	April 2018	2.53%	\$ 1,022,588	\$1,116,360
Term loan . . . . .	July 2016	July 2019	2.20%	498,372	497,221
Revolving credit facility . . . . .	July 2016	July 2021	2.00%	0	196,542
Loan assumed on 50 Fremont . . . . .	February 2015	June 2023	3.75%	198,538	198,268
Total carrying value of debt . . . . .				1,719,498	2,008,391
Less current portion . . . . .				(1,024,717)	0
Total non-current debt . . . . .				<u>\$ 694,781</u>	<u>\$2,008,391</u>

Each of the Company's debt agreements requires it to maintain compliance with certain debt covenants, all of which the Company was in compliance with as of January 31, 2018.

The expected future principal payments for all borrowings as of January 31, 2018 is as follows (in thousands):

<b>Fiscal period:</b>	
Fiscal 2019 . . . . .	\$1,028,949
Fiscal 2020 . . . . .	503,759
Fiscal 2021 . . . . .	3,902
Fiscal 2022 . . . . .	4,051
Fiscal 2023 and thereafter . . . . .	186,160
Total principal outstanding . . . . .	<u>\$1,726,821</u>

### *Convertible Senior Notes*

<u>(in thousands)</u>	<u>Par Value Outstanding</u>	<u>Equity Component Recorded at Issuance</u>	<u>Liability Component of Par Value as of</u>	
			<u>January 31, 2018</u>	<u>January 31, 2017</u>
0.25% Convertible Senior Notes due April 2018 . . . . .	\$1,026,821	\$122,421(1)	\$1,022,588	\$1,116,360

(1) This amount represents the equity component recorded at the initial issuance of the 0.25% convertible senior notes. As of January 31, 2018, \$3.9 million was reclassified to temporary equity on the accompanying consolidated balance sheet as these notes are convertible as of January 31, 2018 based on the conversion criteria below.

In March 2013, the Company issued at par value \$1.15 billion of 0.25% convertible senior notes (the "0.25% Senior Notes", or "Notes") due in April 2018, unless earlier purchased by the Company or converted and are therefore classified as current on the consolidated balance sheet as of January 31, 2018. Interest is payable semi-annually, in arrears on April 1 and October 1 of each year.

The 0.25% Senior Notes are governed by an indenture between the Company, as issuer, and U.S. Bank National Association, as trustee. The 0.25% Senior Notes are unsecured and do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company.

If converted, holders of the 0.25% Senior Notes will receive cash equal to the principal amount, and at the Company's election, cash, shares of the Company's common stock, or a combination of cash and shares, for any amounts in excess of the principal amounts.

Certain terms of the conversion features of the 0.25% Senior Notes are as follows:

	<u>Conversion Rate per \$1,000 Par Value</u>	<u>Initial Conversion Price per Share</u>	<u>Convertible Date</u>
0.25% Senior Notes . . . . .	15.0512	\$66.44	January 1, 2018

Throughout the term of the 0.25% Senior Notes, the conversion rate may be adjusted upon the occurrence of certain events, including any cash dividends. Holders of the 0.25% Senior Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than canceled, extinguished or forfeited.

As of January 31, 2018, holders may convert the 0.25% Senior Notes at any time on or after the convertible date noted in the table above and as described in the indenture.

Holders of the 0.25% Senior Notes have the right to require the Company to purchase with cash all or a portion of the Notes upon the occurrence of a fundamental change, such as a change of control, at a purchase price equal to 100% of the principal amount of the 0.25% Senior Notes plus accrued and unpaid interest. Following certain corporate transactions that constitute a change of control, the Company will increase the conversion rate for a holder who elects to convert the 0.25% Senior Notes in connection with such change of control.

In accounting for the issuances of the 0.25% Senior Notes, the Company separated the 0.25% Senior Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 0.25% Senior Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 0.25% Senior Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

As holders of the 0.25% Senior Notes are eligible to exercise their conversion option as of January 31, 2018, the equity component related to convertible debt instruments is required to be reclassified from permanent equity to temporary equity. Therefore, the difference between (1) the amount of cash deliverable upon conversion (i.e., par value of debt) and (2) the carrying value of the debt component has been reclassified from permanent equity to temporary equity.

In accounting for the transaction costs related to the 0.25% Senior Notes issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to expense over the terms of the 0.25% Senior Notes, and transaction costs attributable to the equity component were netted with the equity component in stockholders' equity.



The 0.25% Senior Notes consisted of the following (in thousands):

	As of	
	<u>January 31, 2018</u>	<u>January 31, 2017</u>
Liability component:		
Principal (1) . . . . .	\$1,026,821	\$1,150,000
Less: debt discount, net (2) . . . . .	(3,867)	(29,954)
Less: debt issuance cost . . . . .	(366)	(3,686)
Net carrying amount . . . . .	<u>\$1,022,588</u>	<u>\$1,116,360</u>

- (1) The effective interest rate of the 0.25% Senior Notes is 2.53%. The interest rate is based on the interest rates of similar liabilities at the time of issuance that did not have an associated convertible feature.
- (2) Included in the consolidated balance sheets within Convertible 0.25% Senior Notes (which is classified as a current liability as of January 31, 2018 and a noncurrent liability as of January 31, 2017) and is amortized over the life of the 0.25% Senior Notes using the effective interest rate method.

The total estimated fair value of the Company's 0.25% Senior Notes at January 31, 2018 was \$1.8 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 2018.

Based on the closing price of the Company's common stock of \$113.91 on January 31, 2018, the if-converted value of the 0.25% Senior Notes exceeded their principal amount by approximately \$733.6 million.

During fiscal 2018, \$123.2 million of the 0.25% Senior Notes outstanding was converted by noteholders. The Company recorded a loss of approximately \$0.2 million during fiscal 2018 related to the extinguishment of the 0.25% Senior Notes converted by noteholders, which represents the difference between the fair market value allocated to the liability component on the settlement date and the net carrying amount of the liability component and unamortized debt issuance costs on the settlement date. As of January 31, 2018 the remaining principal balance of the 0.25% Senior Notes outstanding is approximately \$1.03 billion. The remaining principal balance of the 0.25% Senior Notes matures in April 2018 unless earlier converted by noteholders.

Since January 31, 2018 through the filing date of this Form 10-K, \$73.6 million of the remaining principal balance of the 0.25% Senior Notes has been converted or has requested conversion.

### ***Note Hedges***

To minimize the impact of potential economic dilution upon conversion of the Notes, the Company entered into convertible note hedge transactions with respect to its common stock ("0.25% Note Hedges").

<u>(in thousands, except for shares)</u>	<u>Date</u>	<u>Purchase</u>	<u>Shares</u>
0.25% Note Hedges . . . . .	March 2013	\$153,800	17,308,880

The 0.25% Note Hedges cover shares of the Company's common stock at a strike price that corresponds to the initial conversion price of the 0.25% Senior Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The 0.25% Note Hedges will expire upon the maturity of the 0.25% Senior Notes. The 0.25% Note Hedges are intended to reduce the potential economic dilution upon conversion of the 0.25% Senior Notes in the event that the market value per share of the Company's common stock, as measured under the 0.25% Senior Notes, at the time of exercise is greater than the conversion price of the 0.25% Senior Notes. The 0.25% Note Hedges are separate transactions and are not part of the terms of the 0.25% Senior Notes. Holders of the 0.25% Senior Notes will not have any rights with respect to the 0.25% Note Hedges. The 0.25% Note Hedges do not impact earnings per share.

As a result of the conversions of the 0.25% Senior Notes that were settled during fiscal 2018, the Company exercised its rights on the corresponding portion of the 0.25% Note Hedges and received approximately 675,000 shares of the Company's common stock.

### **Warrants**

	<u>Date</u>	<u>Proceeds (in thousands)</u>	<u>Shares</u>	<u>Strike Price</u>
0.25% Warrants .....	March 2013	\$84,800	17,308,880	\$90.40

In March 2013, the Company also entered into a warrants transaction ("0.25% Warrants"), whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, shares of the Company's common stock. If the 0.25% Warrants are not exercised on their exercise dates, which are in fiscal 2019, they will expire. For periods in which the market value per share of the Company's common stock exceeds the applicable exercise price of the 0.25% Warrants and the Company is profitable, the 0.25% Warrants have a dilutive effect on the Company's earnings per share. The 0.25% Warrants are separate transactions entered into by the Company and are not part of the terms of the 0.25% Senior Notes or the 0.25% Note Hedges. Holders of the 0.25% Senior Notes and 0.25% Note Hedges will not have any rights with respect to the 0.25% Warrants.

### **Term Loan**

In July 2016, the Company entered into a credit agreement ("Term Loan Credit Agreement") with Bank of America, N.A. and certain other institutional lenders for a \$500.0 million term loan facility ("Term Loan") that matures in July 2019. The Term Loan will bear interest, at the Company's option, at either a base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on the Company's consolidated leverage ratio for the preceding four fiscal quarter period.

In July 2016, the Company borrowed the full \$500.0 million under the Term Loan. All of the net proceeds of the Term Loan were for the purpose of partially funding the acquisition of Demandware.

Interest on the Term Loan is due and payable in arrears quarterly for loans bearing interest at a rate based on the base rate and at the end of an interest period in the case of loans bearing interest at the adjusted LIBOR rate.

All outstanding amounts under the Term Loan Credit Agreement will be due and payable in July 2019. The Company may prepay the Term Loan, in whole or in part, at any time without premium or penalty, subject to certain conditions, and amounts repaid or prepaid may not be reborrowed. The Company's obligations under the Term Loan Credit Agreement are required to be guaranteed by certain of its subsidiaries meeting certain thresholds set forth in the Term Loan Credit Agreement.

The weighted average interest rate on the Term Loan was 2.2% for fiscal 2018. Accrued interest on the Term Loan was \$0.3 million as of January 31, 2018. As of January 31, 2018, the noncurrent outstanding principal portion was \$500.0 million.

### **Revolving Credit Facility**

In July 2016, the Company entered into an Amended and Restated Credit Agreement ("Revolving Loan Credit Agreement") with Wells Fargo Bank, National Association, and certain other institutional lenders that provides for \$1.0 billion unsecured revolving credit facility ("Credit Facility") that matures in July 2021. The Revolving Loan Credit Agreement amended and restated the Company's existing revolving credit facility dated October 2014. The Company may use the proceeds of future borrowings under the Credit Facility for refinancing other indebtedness, working capital, capital expenditures and other general corporate purposes, including permitted acquisitions.

The borrowings under the Credit Facility bear interest, at the Company's option, at a base rate plus a spread of 0.00% to 0.75% or an adjusted LIBOR rate plus a spread of 1.00% to 1.75%, in each case with such spread being determined based on the Company's consolidated leverage ratio for the preceding four fiscal quarter period. Interest is due and payable in arrears quarterly for loans bearing interest at a rate based on the base rate and at the end of an interest period in the case of loans bearing interest at the adjusted LIBOR rate. Regardless of what amounts, if any, are outstanding under the Credit Facility, the Company is also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.125% to 0.25%, with such rate being based on the Company's consolidated leverage ratio for the preceding four fiscal quarter period, payable in arrears quarterly.

In fiscal 2018, the Company paid down the remaining \$200.0 million of outstanding borrowings under the Credit Facility. There were no outstanding borrowings under the Credit Facility as of January 31, 2018. The Company continues to pay a commitment fee on the available amount of the Credit Facility.

***Loan Assumed on 50 Fremont***

The Company assumed a \$200.0 million loan with the acquisition of 50 Fremont ("Loan"). The Loan bears an interest rate of 3.75% per annum and is due in June 2023. Beginning in fiscal 2019, principal and interest payments are required, with the remaining principal due at maturity. For fiscal 2018 and 2017, total interest expense recognized was \$7.5 million and \$7.5 million, respectively. The Loan can be prepaid at any time subject to a yield maintenance fee. The agreement governing the Loan contains certain customary affirmative and negative covenants that the Company was in compliance with as of January 31, 2018.

***Interest Expense on Convertible Senior Notes, Term Loan, Credit Facility and Loan Assumed on 50 Fremont***

The following table sets forth total interest expense recognized related to the 0.25% Senior Notes, the Term Loan, the Credit Facility and the Loan (in thousands):

	<u>Fiscal Year Ended January 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractual interest expense . . . . .	\$22,886	\$19,023	\$11,879
Amortization of debt issuance costs . . . . .	5,324	5,403	4,105
Amortization of debt discount . . . . .	25,943	25,137	24,504
	<u>\$54,153</u>	<u>\$49,563</u>	<u>\$40,488</u>

**9. Other Balance Sheet Accounts**

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consisted of the following (in thousands):

	<u>As of</u>	
	<u>January 31,</u> <u>2018</u>	<u>January 31,</u> <u>2017</u>
Prepaid income taxes . . . . .	\$ 33,523	\$ 26,932
Other taxes receivable . . . . .	32,692	34,177
Prepaid expenses and other current assets . . . . .	324,163	218,418
	<u>\$390,378</u>	<u>\$279,527</u>

***Capitalized Software, net***

Capitalized software, net at January 31, 2018 and 2017 was \$146.1 million and \$141.7 million, respectively. Accumulated amortization relating to capitalized software, net totaled \$325.6 million and \$250.9 million, respectively, at January 31, 2018 and 2017.

Capitalized internal-use software amortization expense totaled \$74.7 million, \$64.6 million and \$49.9 million for fiscal 2018, 2017 and 2016, respectively.

The Company capitalized \$8.4 million, \$7.2 million and \$6.1 million of stock-based expensed related to capitalized internal-use software development during fiscal 2018, 2017 and 2016, respectively.

***Other Assets, net***

Other assets consisted of the following (in thousands):

	<b>As of</b>	
	<b>January 31, 2018</b>	<b>January 31, 2017</b>
Deferred income taxes, noncurrent, net . . . . .	\$ 36,523	\$ 28,939
Long-term deposits . . . . .	23,518	23,597
Domain names and patents, net . . . . .	22,779	39,213
Customer contract assets (1) . . . . .	170,921	281,733
Other . . . . .	141,899	113,387
	<u>\$395,640</u>	<u>\$486,869</u>

(1) Customer contract asset reflects the fair value of future billings of amounts that are contractually committed by acquired companies' existing customers as of the acquisition date.

Domain names and patents amortization expense was \$17.0 million, \$16.5 million and \$15.5 million for fiscal 2018, 2017 and 2016, respectively.

***Accounts Payable, Accrued Expenses and Other Liabilities***

Accounts payable, accrued expenses and other liabilities consisted of the following (in thousands):

	<b>As of</b>	
	<b>January 31, 2018</b>	<b>January 31, 2017</b>
Accounts payable . . . . .	\$ 76,465	\$ 115,257
Accrued compensation . . . . .	960,453	730,390
Non-cash equity liability (1) . . . . .	0	68,355
Accrued income and other taxes payable . . . . .	305,861	239,699
Capital lease obligation, current . . . . .	102,539	102,106
Other current liabilities . . . . .	564,778	496,857
	<u>\$2,010,096</u>	<u>\$1,752,664</u>

(1) Non-cash equity liability represents the purchase price of shares issued to non-executive employees, for those shares exceeding previously registered ESPP shares at the time of sale to the extent the shares had not been subsequently sold by the employee purchaser. This liability was relieved in the fourth quarter of fiscal 2018.

### Other Noncurrent Liabilities

Other noncurrent liabilities consisted of the following (in thousands):

	As of	
	January 31, 2018	January 31, 2017
Deferred income taxes and income taxes payable . . . . .	\$115,717	\$ 99,378
Financing obligation - leased facility . . . . .	198,226	200,711
Long-term lease liabilities and other . . . . .	479,197	480,850
	<u>\$793,140</u>	<u>\$780,939</u>

### 10. Stockholders' Equity

The Company maintains the following stock plans: the ESPP, the 2013 Equity Incentive Plan and the 2014 Inducement Equity Incentive Plan ("2014 Inducement Plan").

As of January 31, 2018 and 2017, \$62.8 million and \$48.4 million, respectively, was withheld on behalf of employees for future purchases under the ESPP and is recorded in accounts payable, accrued expenses and other liabilities.

Prior to February 2006, options issued under the Company's stock option plans generally had a term of 10 years. From February 1, 2006 through July 2013, options issued had a term of five years. After July 2013, options issued have a term of seven years.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions and fair value per share:

<u>Stock Options</u>	<u>Fiscal Year Ended January 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Volatility . . . . .	28.0-31.4%	31.4-32.3%	32.0-37.0%
Estimated life . . . . .	3.5 years	3.5 years	3.5 years
Risk-free interest rate . . . . .	1.4-2.3%	0.9-1.6%	1.1-1.4%
Weighted-average fair value per share of grants . . . . .	\$ 22.71	\$ 19.13	\$ 20.22
	<u>Fiscal Year Ended January 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>ESPP</u>			
Volatility . . . . .	21.3-27.6%	28.2-35.2%	30.0-34.0%
Estimated life . . . . .	0.75 years	0.75 years	0.75 years
Risk-free interest rate . . . . .	1.1-1.7%	0.5-1.0%	0.1-0.8%
Weighted-average fair value per share of grants . . . . .	\$ 23.64	\$ 20.18	\$ 19.49

The Company estimated its future stock price volatility considering both its observed option-implied volatilities and its historical volatility calculations. Management believes this is the best estimate of the expected volatility over the expected life of its stock options and stock purchase rights.

The estimated life for the stock options was based on an analysis of historical exercise activity. The risk-free interest rate 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 estimated forfeiture rate applied is based on historical forfeiture rates. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model.

During fiscal 2016, the Company granted a performance-based restricted stock unit award to the Chairman of the Board and Chief Executive Officer and during fiscal 2017, the Company granted performance-based restricted stock unit awards to certain executive officers, including the Chairman of the Board and Chief Executive Officer. The performance-based restricted stock unit awards are subject to vesting based on a performance-based condition and a service-based condition. At the end of the three-year service period, based on the Company's share price performance, these performance-based restricted stock units will vest in a percentage of the target number of shares between 0 and 200%, depending on the extent the performance condition is achieved.

Stock activity excluding the ESPP is as follows:

	Shares Available for Grant	Options Outstanding		
		Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2017 . . . . .	16,531,822	30,353,076	\$59.88	
Increase in shares authorized:				
2013 Equity Incentive Plan . . . . .	37,009,109	0	0.00	
2014 Inducement Plan . . . . .	16,198	0	0.00	
Options granted under all plans . . . . .	(1,212,731)	1,212,731	91.76	
Restricted stock activity . . . . .	(3,302,885)	0	0.00	
Stock grants to board and advisory board members . . . . .	(211,588)	0	0.00	
Exercised . . . . .	0	(8,288,960)	46.41	
Plan shares expired . . . . .	(59,262)	0	0.00	
Canceled . . . . .	1,541,850	(1,541,850)	71.66	
Balance as of January 31, 2018 . . . . .	<u>50,312,513</u>	<u>21,734,997</u>	<u>\$65.96</u>	<u>\$1,042,149</u>
Vested or expected to vest . . . . .		<u>20,533,483</u>	<u>\$65.40</u>	<u>\$ 996,145</u>
Exercisable as of January 31, 2018 . . . . .		<u>11,259,046</u>	<u>\$60.44</u>	<u>\$ 601,993</u>

The total intrinsic value of the options exercised during fiscal 2018, 2017 and 2016 was \$373.0 million, \$224.3 million and \$291.3 million, respectively. The intrinsic value is the difference between the current market value of the stock and the exercise price of the stock option.

The weighted-average remaining contractual life of vested and expected to vest options is approximately 5 years.

As of January 31, 2018, options to purchase 11,259,046 shares were vested at a weighted average exercise price of \$60.44 per share and had a remaining weighted-average contractual life of approximately 4.2 years. The total intrinsic value of these vested options as of January 31, 2018 was \$602.0 million.

During fiscal 2018, the Company recognized stock-based expense related to its equity plans for employees and non-employee directors of \$997.0 million. As of January 31, 2018, the aggregate stock compensation remaining to be amortized to costs and expenses was approximately \$1.8 billion. The Company will amortize this stock compensation balance as follows: \$855.4 million during fiscal 2019; \$582.7 million during fiscal 2020; \$318.1 million during fiscal 2021; \$59.5 million during fiscal 2022; \$17.2 million during fiscal 2023 and

\$8.0 million thereafter. The expected amortization reflects only outstanding stock awards as of January 31, 2018 and assumes no forfeiture activity.

In prior years, the Company had an annual equity grant cycle for employees in the month of November. During fiscal 2018, the Company changed its annual equity grant to occur in the month of March, starting in fiscal 2019. The Company granted 14.9 million shares under the annual equity grant in fiscal 2017 whereas the Company did not grant any shares under the annual equity grant in fiscal 2018.

The aggregate stock compensation remaining to be amortized to costs and expenses will be recognized over a weighted average period of 1.8 years.

The following table summarizes information about stock options outstanding as of January 31, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$0.86 to \$52.30	4,142,116	4.1	\$36.78	3,497,985	\$42.40
\$53.60 to \$58.86	624,358	3.5	55.45	467,363	55.44
\$59.34	4,440,985	3.8	59.34	3,285,181	59.34
\$59.37 to \$75.01	1,365,236	5.1	69.74	533,919	69.95
\$75.57	5,129,107	5.8	75.57	1,271,214	75.57
\$76.48 to \$80.62	574,675	5.4	78.54	210,894	78.57
\$80.99 to \$112.89	5,458,520	5.2	83.40	1,992,490	80.99
	<u>21,734,997</u>	4.8	\$65.96	<u>11,259,046</u>	\$60.44

Restricted stock activity is as follows:

	Restricted Stock Outstanding		
	Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2017	27,453,498	\$0.001	
Granted - restricted stock units and awards	3,519,847	0.001	
Canceled	(2,013,813)	0.001	
Vested and converted to shares	<u>(9,941,049)</u>	<u>0.001</u>	
Balance as of January 31, 2018	<u>19,018,483</u>	<u>\$0.001</u>	<u>\$2,166,395</u>
Expected to vest	<u>16,557,373</u>		<u>\$1,886,050</u>

The restricted stock, which upon vesting entitles the holder to one share of common stock for each share of restricted stock, has an exercise price of \$0.001 per share, which is equal to the par value of the Company's common stock, and generally vests over four years. The total fair value of shares vested during fiscal 2018, 2017 and 2016 was \$952.8 million, \$640.2 million and \$667.6 million, respectively.

The weighted-average grant date fair value of the restricted stock issued for fiscal 2018, 2017 and 2016 was \$95.85, \$75.99 and \$73.61, respectively.

### ***Common Stock***

The following number of shares of common stock were reserved and available for future issuance at January 31, 2018:

Options outstanding . . . . .	21,734,997
Restricted stock awards and units and performance stock units outstanding . . . . .	19,018,483
Stock available for future grant:	
2013 Equity Incentive Plan . . . . .	49,650,949
2014 Inducement Plan . . . . .	550,832
Amended and Restated 2004 Employee Stock Purchase Plan . . . . .	7,518,906
Acquired equity plans . . . . .	110,732
Convertible Senior Notes . . . . .	15,454,888
Warrants . . . . .	17,308,880
	<u>131,348,667</u>

During fiscal years 2018, 2017 and 2016, certain board members received stock grants totaling 57,832 shares of common stock, 62,632 shares of common stock and 67,041 shares of common stock, respectively for board services pursuant to the terms described in the 2013 Plan and previously, the 2004 Outside Directors Stock Plan. The expense related to these awards, which was expensed immediately at the time of the issuance, totaled \$5.3 million, \$4.7 million and \$4.8 million for fiscal 2018, 2017 and 2016, respectively.

### ***Preferred Stock***

The Company's board of directors has the authority, without further action by stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series. The Company's board of directors may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the Company's common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock, or delaying or preventing a change in control. The ability to issue preferred stock could delay or impede a change in control. As of January 31, 2018 and 2017, no shares of preferred stock were outstanding.

## **11. Income Taxes**

The domestic and foreign components of income (loss) before provision for (benefit from) income taxes consisted of the following (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Domestic . . . . .	\$ 51,131	\$ 65,432	\$ (49,558)
Foreign . . . . .	150,977	(40,049)	113,837
	<u>\$202,108</u>	<u>\$ 25,383</u>	<u>\$ 64,279</u>



The provision for (benefit from) income taxes consisted of the following (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Current:</b>			
Federal .....	\$(6,733)	\$ 153	\$ 40,723
State .....	1,792	4,626	13,023
Foreign .....	85,361	71,878	57,347
Total .....	<u>80,420</u>	<u>76,657</u>	<u>111,093</u>
<b>Deferred:</b>			
Federal .....	(1,697)	(182,848)	1,453
State .....	342	(35,808)	(426)
Foreign .....	(4,435)	(12,250)	(415)
Total .....	<u>(5,790)</u>	<u>(230,906)</u>	<u>612</u>
Provision for (benefit from) income taxes .....	<u>\$74,630</u>	<u>\$(154,249)</u>	<u>\$111,705</u>

In fiscal 2017, the Company adopted Accounting Standards Update No. 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting” (“ASU 2016-09”). The excess tax benefits from the vesting or the settlement of the stock awards recorded in the consolidated statement of operations during fiscal 2017 and fiscal 2018 were immaterial, after considering the change in the Company’s valuation allowance. In fiscal 2016, the Company recorded excess tax benefits of \$59.5 million directly to stockholders’ equity.

In fiscal 2018, the Company recorded tax expense primarily from profitable jurisdictions outside of the United States. In fiscal 2017, the Company recorded a net tax benefit of \$154.2 million. The most significant component of this tax amount was the benefit of \$210.3 million resulting from a partial release of its valuation allowance in connection with the acquisition of Demandware. The net deferred tax liability from acquisitions provided an additional source of income to support the realizability of the Company’s pre-existing deferred tax assets and as a result, the Company released a portion of its valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside the United States. In addition, as a result of adopting ASU 2016-09 and the Company’s valuation allowance, it did not record significant current tax expense for the United States. In fiscal 2016, the Company recorded income taxes in profitable jurisdictions outside the United States and current tax expense in the United States. The Company had U.S. current tax expense as a result of taxable income before considering certain excess tax benefits from stock options and vesting of restricted stock prior to the adoption of ASU 2016-09.

A reconciliation of income taxes at the statutory federal income tax rate to the provision for (benefit from) income taxes included in the accompanying consolidated statements of operations is as follows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
U.S. federal taxes at statutory rate (1) .....	\$ 68,313	\$ 8,884	\$ 22,498
State, net of the federal benefit .....	(10,769)	838	(5,260)
Foreign taxes in excess of the U.S. statutory rate (2) ..	(34,809)	61,912	(25,780)
Change in valuation allowance .....	39,317	(128,797)	139,565
Tax credits .....	(107,260)	(50,216)	(48,943)
Non-deductible expenses .....	52,636	47,836	26,841
Tax expense from acquisitions .....	1,137	568	1,584
Excess tax benefits related to shared based compensation (3) .....	(135,237)	(95,030)	0
Effect of U.S. tax law change .....	206,885	0	0
Other, net .....	(5,583)	(244)	1,200
Provision for (benefit from) income taxes .....	<u>\$ 74,630</u>	<u>\$(154,249)</u>	<u>\$111,705</u>

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- (1) The Company revised its statutory rate from 35.0 percent to 33.8 percent for fiscal 2018 to reflect the corporate tax rate reduction effective January 1, 2018 due to the Tax Act.
  - (2) In fiscal 2016, the Company amended its inter-company cost-sharing arrangement to exclude stock-based compensation as a result of the U.S. Tax Court's opinion in Altera Corporation's ("Altera") litigation with the IRS, and accordingly, recorded a tax benefit subject to the valuation allowance. Most of the Altera related tax benefits were reflected in the foreign taxes in excess of the U.S. statutory rate in fiscal 2016, which were partially offset by a change in valuation allowance. In fiscal 2018, the benefit resulted from higher foreign tax credits, which were offset by the valuation allowance.
  - (3) Starting fiscal 2017, the excess tax benefits resulting from the vesting or the settlement of the stock awards were recorded in the tax provision, which were offset by the valuation allowance in the U.S. jurisdiction.

In December 2017, the Tax Act was enacted into law, significantly changing income tax law that affects U.S. corporations. Key changes included a corporate tax rate reduction from 35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S. international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. Due to the timing of the Tax Act and additional guidance and interpretations that may be issued in the future, the Company has not completed its analysis of the effects of the Tax Act. However, for the period ended January 31, 2018, the Company recorded a provisional tax expense of \$206.9 million associated with the re-measurement of deferred taxes for the corporate rate reduction, which was offset by a reduction in valuation allowance of \$216.8 million. Accordingly, an insignificant provisional benefit was recorded. Based on the Company's provisional assessment, the transition tax had no impact to its income tax provision. The provisional estimates will be adjusted during the measurement period defined under SAB 118, based upon the Company's ongoing analysis of its data and tax positions along with new guidance from regulators and interpretations of the law.

The Company received certain tax incentives in Singapore in the form of reduced tax rates, which will expire in fiscal 2020.

### ***Deferred Income Taxes***

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company recorded a provisional adjustment to its U.S. deferred income taxes as of January 31, 2018 to reflect the reduction in the corporate tax rate from 35 percent to 21 percent resulting from the Tax Act.

Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	<u>As of January 31,</u>	
	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Net operating loss carryforwards . . . . .	\$ 617,370	\$1,018,080
Deferred stock-based expense . . . . .	78,706	133,921
Tax credits . . . . .	496,695	240,925
Deferred rent expense . . . . .	59,159	65,779
Accrued liabilities . . . . .	113,182	141,008
Basis difference on strategic and other investments . . . . .	41,441	42,034
Financing obligation . . . . .	96,952	140,539
Deferred cost sharing adjustment . . . . .	19,511	30,351
Non-cash equity liability . . . . .	0	26,155
Other . . . . .	14,382	21,432
Total deferred tax assets . . . . .	<u>1,537,398</u>	<u>1,860,224</u>
Less valuation allowance . . . . .	<u>(974,706)</u>	<u>(948,386)</u>
Deferred tax assets, net of valuation allowance . . . . .	562,692	911,838
Deferred tax liabilities:		
Deferred commissions . . . . .	(137,479)	(139,641)
Purchased intangibles . . . . .	(204,678)	(408,203)
Unrealized gains on investments . . . . .	(5,093)	(8,547)
Depreciation and amortization . . . . .	(166,382)	(251,782)
Deferred revenue . . . . .	(37,435)	(98,997)
Total deferred tax liabilities . . . . .	<u>(551,067)</u>	<u>(907,170)</u>
Net deferred tax assets . . . . .	<u>\$ 11,625</u>	<u>\$ 4,668</u>

At January 31, 2018, for federal income tax purposes, the Company had net operating loss carryforwards of approximately \$2.7 billion, which expire in fiscal 2021 through fiscal 2038, federal research and development tax credits of approximately \$274.5 million, which expire in fiscal 2020 through fiscal 2038, foreign tax credits of approximately \$118.5 million, which expire in fiscal 2019 through fiscal 2028, and alternative minimum tax credits of \$0.8 million, which the Company expects to receive as a refund under the Tax Act. For California income tax purposes, the Company had net operating loss carryforwards of approximately \$847.5 million which expire beginning in fiscal 2019 through fiscal 2039, California research and development tax credits of approximately \$215.1 million, which do not expire, and \$8.8 million of enterprise zone tax credits, which expire in fiscal 2025. For other states income tax purposes, the Company had net operating loss carryforwards of approximately \$1.2 billion which expire beginning in fiscal 2019 through fiscal 2037 and tax credits of approximately \$27.1 million, which expire beginning in fiscal 2021 through fiscal 2033. Utilization of the Company's net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company regularly assesses the realizability of its deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some or all of its deferred tax assets will not be realized. The Company evaluates and weighs all available positive and negative evidence such as historic results, future reversals of existing deferred tax liabilities, projected future taxable income, as well as prudent and feasible tax-planning strategies. The Company will continue to assess the realizability of the deferred tax assets in each of the applicable jurisdictions going forward. The Company may release all or a portion of its valuation allowance if there is sufficient positive evidence that outweighs the negative evidence, for example, if the trend in profitability continues.

### ***Tax Benefits Related to Stock-Based Compensation***

The income tax benefit related to stock-based compensation was \$264.9 million, \$228.8 million and 180.2 million for fiscal 2018, 2017 and 2016, respectively, the majority of which was not recognized as a result of the valuation allowance.

### ***Unrecognized Tax Benefits and Other Considerations***

The Company records liabilities related to its uncertain tax positions. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes 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. The Company had gross unrecognized tax benefits of \$304.0 million, \$231.3 million, and \$172.7 million as of January 31, 2018, 2017 and 2016 respectively.

A reconciliation of the beginning and ending balance of total unrecognized tax benefits for fiscal years 2018, 2017 and 2016 is as follows (in thousands):

	Fiscal Year Ended January 31,		
	2018	2017	2016
Beginning of period	\$231,317	\$172,741	\$146,188
Tax positions taken in prior period:			
Gross increases	31,347	18,254	7,456
Gross decreases	(6,364)	(1,131)	(7,264)
Tax positions taken in current period:			
Gross increases	50,405	57,872	38,978
Settlements	(615)	(15,598)	(8,684)
Lapse of statute of limitations	(8,193)	(1,261)	(781)
Currency translation effect	6,054	440	(3,152)
End of period	<u>\$303,951</u>	<u>\$231,317</u>	<u>\$172,741</u>

For fiscal 2018, 2017 and 2016 total unrecognized tax benefits in an amount of \$77.2 million, \$73.0 million and \$56.2 million, respectively, if recognized, would reduce income tax expense and the Company's effective tax rate after considering the impact of the change in valuation allowance in the U.S.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the income tax provision. The Company recorded an immaterial amount for penalties and interest for each of fiscal 2018, 2017 and 2016. The balance in the non-current income tax payable related to penalties and interest was \$6.3 million, \$6.7 million and \$6.3 million as of January 31, 2018, 2017 and 2016, respectively.

Certain prior year tax returns are currently being examined by various taxing authorities in countries including the United States, France, United Kingdom and Germany. In March 2017, the Company received the final notice of proposed adjustments primarily related to transfer pricing issues from the IRS for fiscal 2011 and fiscal 2012. Accordingly, the Company re-assessed and adjusted its reserves, which resulted in a net immaterial impact to the tax provision due to its valuation allowance. The Company is currently appealing the IRS proposed adjustments. The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. As the outcome of the tax audits cannot be predicted with certainty, if any issues addressed in the Company's tax audits are resolved in a manner inconsistent with management's expectations, the Company could adjust its provision for income taxes in the future. Generally, any adjustments resulting from the U.S. audits should not have a significant impact to the Company's tax provision due to its valuation allowance.

The Company has operations and taxable presence in multiple jurisdictions in the U.S. and outside of the U.S. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions around the world. The Company currently considers U.S. federal and state, Canada, Japan, Australia, Germany, France and the United Kingdom to be major tax jurisdictions. The Company's U.S. federal and state tax returns since February 1999, which was the inception of the Company, remain open to examination. With some exceptions, tax years prior to fiscal 2011 in jurisdictions outside of U.S. are generally closed. However, in Japan and United Kingdom, the Company is no longer subject to examinations for years prior to fiscal 2014 and fiscal 2015, respectively.

The Company anticipates it is reasonably possible that a decrease of unrecognized tax benefits up to approximately \$7.5 million may occur in the next 12 months, as the applicable statutes of limitations lapse.

## 12. Earnings (Loss) Per Share

Basic earnings/loss per share is computed by dividing net income by the weighted-average number of common shares outstanding for the fiscal period. Diluted earnings per share is computed by giving effect to all potential weighted average dilutive common stock, including options, restricted stock units, warrants and the convertible senior notes. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method. Diluted loss per share for fiscal 2016 is the same as basic loss per share as there was a net loss in fiscal 2016, and inclusion of potentially issuable shares was anti-dilutive.

A reconciliation of the denominator used in the calculation of basic and diluted earnings per share is as follows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Numerator:</b>			
Net income (loss) . . . . .	\$127,478	\$179,632	\$ (47,426)
<b>Denominator:</b>			
Weighted-average shares outstanding for basic earnings (loss) per share . . . . .	714,919	687,797	661,647
Effect of dilutive securities:			
Convertible senior notes . . . . .	4,672	1,906	0
Employee stock awards . . . . .	14,163	10,514	0
Warrants . . . . .	844	0	0
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share . . . . .	<u>734,598</u>	<u>700,217</u>	<u>661,647</u>

The weighted-average number of shares outstanding used in the computation of diluted earnings per share does not include the effect of the following potential outstanding common stock. The effects of these potentially outstanding shares were not included in the calculation of diluted earnings per share because the effect would have been anti-dilutive (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Employee stock awards . . . . .	7,210	10,527	26,615
Convertible senior notes . . . . .	0	0	17,309
Warrants . . . . .	0	17,309	17,309

### 13. Commitments

#### *Letters of Credit*

As of January 31, 2018, the Company had a total of \$99.9 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through December 2030.

#### *Leases*

The Company leases facilities space and certain fixed assets under non-cancelable operating and capital leases with various expiration dates.

As of January 31, 2018, the future minimum lease payments under non-cancelable operating and capital leases are as follows (in thousands):

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Financing Obligation-Leased Facility(1)</u>
Fiscal Period:			
Fiscal 2019 .....	\$115,909	\$ 610,925	\$ 21,881
Fiscal 2020 .....	201,618	540,391	22,325
Fiscal 2021 .....	77	400,738	22,770
Fiscal 2022 .....	38	298,641	23,214
Fiscal 2023 .....	3	277,032	23,658
Thereafter .....	<u>0</u>	<u>1,155,600</u>	<u>187,055</u>
Total minimum lease payments ...	317,645	<u>\$3,283,327</u>	<u>\$300,903</u>
Less: amount representing interest .....	<u>(22,328)</u>		
Present value of capital lease obligations .....	<u>\$295,317</u>		

- (1) Total Financing Obligation - Leased Facility noted above represents the total obligation on the lease agreement including amounts allocated to interest and the implied lease for the land as noted in Note 5 "Property and Equipment." As of January 31, 2018, \$218.2 million of the total \$300.9 million above was recorded to Financing obligation leased facility, of which the current portion is included in "Accounts payable, accrued expenses and other liabilities" and the noncurrent portion is included in "Other noncurrent liabilities" on the consolidated balance sheets.

The Company's agreements for the facilities and certain services provide the Company with the option to renew. The Company's future contractual obligations would change if the Company exercised these options.

The terms of the lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Of the total operating lease commitment balance of \$3.3 billion, approximately \$2.7 billion is related to facilities space. The remaining commitment amount is related to computer equipment and furniture and fixtures.

Rent expense for fiscal 2018, 2017 and 2016 was \$285.2 million, \$226.0 million and \$174.6 million, respectively.

#### *Other Purchase Commitments*

In April 2016, the Company entered into an agreement with a third-party provider for certain infrastructure services for a period of four years. The Company paid \$96.0 million in connection with this agreement during

fiscal 2018. The agreement further provides that the Company will pay an additional \$108.0 million in fiscal 2019 and \$126.0 million in fiscal 2020.

#### **14. Employee Benefit Plan**

The Company has a 401(k) plan covering all eligible employees in the United States and a Registered Retirement Savings plan covering all eligible employees in Canada. Since January 1, 2006, the Company has been contributing to the plans. Total Company contributions during fiscal 2018, 2017 and 2016, were \$93.2 million, \$56.4 million and \$45.6 million, respectively.

#### **15. Legal Proceedings and Claims**

In the ordinary course of business, the Company is 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. The Company has been, and may in the future be put on notice and/or sued by third-parties for alleged infringement of their proprietary rights, including patent infringement.

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

The Company makes 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. The outcomes of legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, the Company is not able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces, and the Company's estimates may not prove to be accurate. In management's opinion, resolution of all current matters is not expected to have a material adverse impact on the Company's 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 the Company's current or future results of operations or cash flows, or both, in a particular quarter.

In September 2013, one of the Company's subsidiaries, ExactTarget, Inc. ("ExactTarget"), was added as a defendant in a purported class-action lawsuit that alleged that ExactTarget and one of its customers, Simply Fashion Stores, Ltd. ("Simply Fashion"), violated the Telephone Consumer Protection Act ("TCPA") as a result of Simply Fashion's text messaging campaigns and alleged failure to opt-out certain Simply Fashion customers from receiving messages. The complaint was subsequently amended to remove Simply Fashion as a defendant and the lawsuit is currently before the United States District Court for the Southern District of Indiana. The complaint seeks statutory damages and injunctive relief. While disputing the allegations of wrongdoing, the Company has reached a settlement of the lawsuit for approximately \$6.3 million. The parties submitted the settlement agreement to the Court for approval and the Court entered the preliminary approval order. The Court set the final approval hearing for July 20, 2018.

#### **16. Related-Party Transactions**

In January 1999, the Salesforce.com Foundation, also referred to as the Foundation, was chartered on an idea of leveraging the Company's people, technology, and resources to help improve communities around the world. The Company calls this integrated philanthropic approach the 1-1-1 model. Beginning in 2008, Salesforce.org, which is a non-profit public benefit corporation, was established to resell the Company's services to nonprofit organizations and certain higher education organizations.

The Company's Chairman is the chairman of both the Foundation and Salesforce.org. The Company's Chairman holds one of the three Foundation board seats. The Company's Chairman, one of the Company's employees and one of the Company's board members hold three of Salesforce.org's nine board seats. The Company does not control the Foundation's or Salesforce.org's activities, and accordingly, the Company does not consolidate either of the related entities' statement of activities with its financial results.

Since the Foundation's and Salesforce.org's inception, the Company has provided at no charge certain resources to those entities' employees such as office space, furniture, equipment, facilities, services, and other resources. The value of these items was approximately \$11.2 million, \$3.3 million and \$1.2 million for fiscal 2018, 2017 and 2016, respectively.

Additionally, the Company allows Salesforce.org to donate subscriptions of the Company's services to other qualified non-profit organizations. The Company also allows Salesforce.org to resell the Company's service to non-profit organizations and certain education entities. The Company does not charge Salesforce.org for these subscriptions, therefore income from subscriptions sold to non-profit organizations is donated back to the community through charitable grants made by the Foundation and Salesforce.org. The value of the subscriptions sold by Salesforce.org pursuant to the reseller agreement, as amended, was approximately \$182.6 million, \$112.4 million and \$69.9 million for fiscal 2018, 2017 and 2016, respectively.

As described in Note 6 "Business Combinations," the Company's Chairman held an ownership interest in an acquisition that was completed by the Company in April 2016.

## 17. Subsequent events

In March 2018, Salesforce Ventures, a wholly owned subsidiary of the Company, entered into an agreement to make a strategic investment, through a private placement, in a late stage technology company. The Company had initially invested \$5.0 million in this company in fiscal 2015 and the agreement provides that the Company will invest an additional \$100.0 million in this company, subject to certain contingencies. This investment is expected to occur in the Company's first quarter of fiscal 2019, and will be one of the Company's largest strategic investments to date. The Company expects its ownership interest after this investment to be less than five percent of the investee company's outstanding shares.

## 18. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for fiscal 2018 and 2017 is as follows:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Fiscal Year</u>
	(in thousands, except per share data)				
<b>Fiscal 2018</b>					
Revenues	\$2,387,579	\$2,561,589	\$2,679,841	\$2,851,003	\$10,480,012
Gross profit	1,737,024	1,890,922	1,965,333	2,113,211	7,706,490
Income (loss) from operations	(8,882)	50,793	115,988	77,869	235,768
Net income (loss)	\$ (9,207)	\$ 17,736	\$ 51,394	\$ 67,555	\$ 127,478
Basic net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.18
Diluted net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.17
<b>Fiscal 2017</b>					
Revenues	\$1,916,603	\$2,036,618	\$2,144,775	\$2,293,988	\$ 8,391,984
Gross profit	1,419,622	1,511,039	1,559,253	1,668,031	6,157,945
Income (loss) from operations	51,986	32,551	3,036	(23,345)	64,228
Net income (loss)	\$ 38,759	\$ 229,622	\$ (37,309)	\$ (51,440)	\$ 179,632
Basic net income (loss) per share	\$ 0.06	\$ 0.34	\$ (0.05)	\$ (0.07)	\$ 0.26
Diluted net income (loss) per share	\$ 0.06	\$ 0.33	\$ (0.05)	\$ (0.07)	\$ 0.26



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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report.

In designing and evaluating our disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are designed to, and are effective to, provide assurance at a reasonable level that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosures.

#### **(b) Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2018 based on the guidelines established in the *Internal Control—Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2018. We reviewed the results of management’s assessment with our Audit Committee.

The effectiveness of our internal control over financial reporting as of January 31, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

#### **(c) Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the quarter ended January 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**(d) Inherent Limitations on Effectiveness of Controls**

Our management, including our chief executive officer and chief financial officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information concerning our directors, compliance with Section 16(a) of the Exchange Act, our Audit Committee and any changes to the process by which stockholders may recommend nominees to the Board required by this Item are incorporated herein by reference to information contained in the Proxy Statement, including “Directors and Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

The information concerning our executive officers required by this Item is incorporated by reference herein to the section of this Annual Report on Form 10-K in Part I, entitled “Executive Officers of the Registrant.”

We have adopted a code of ethics, our Code of Conduct, which applies to all employees, including our principal executive officer, Marc Benioff, principal financial officer, Mark Hawkins, principal accounting officer, Joe Allanson, and all other executive officers. The Code of Conduct is available on our website at <http://investor.salesforce.com/about-us/investor/corporate-governance/>. A copy may also be obtained without charge by contacting Investor Relations, salesforce.com, inc., The Landmark @ One Market, Suite 300, San Francisco, California 94105 or by calling (415) 901-7000.

We plan to post on our website at the address described above future amendments and waivers of our Code of Conduct as permitted under applicable NYSE and SEC rules.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Compensation Discussion and Analysis,” “Committee Reports,” “Directors and Corporate Governance” and “Executive Compensation and Other Matters.”

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

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” and “Equity Compensation Plan Information.”

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Directors and Corporate Governance” and “Employment Contracts and Certain Transactions.”

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated herein by reference to information contained in the Proxy Statement, including “Ratification of Appointment of Independent Auditors.”

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

2. *Financial Statement Schedules*: Schedule II Valuation and Qualifying Accounts is filed as part of this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

The Financial Statement Schedules not listed have been omitted because they are not applicable or are not required or the information required to be set forth herein is included in the Consolidated Financial Statements or Notes thereto.

3. *Exhibits*: See “Index to Exhibits.”

(b) *Exhibits*. The exhibits listed below in the accompanying “Index to Exhibits” are filed or incorporated by reference as part of this Annual Report on Form 10-K.

(c) *Financial Statement Schedules*.

**salesforce.com, inc.**

**Schedule II Valuation and Qualifying Accounts**

Description	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Deductions write-offs</u>	<u>Balance at end of year</u>
Fiscal year ended January 31, 2018				
Allowance for doubtful accounts .....	\$12,039,000	30,841,000	(21,917,000)	\$20,963,000
Fiscal year ended January 31, 2017				
Allowance for doubtful accounts .....	\$10,488,000	\$17,591,000	\$(16,040,000)	\$12,039,000
Fiscal year ended January 31, 2016				
Allowance for doubtful accounts .....	\$ 8,146,000	\$14,738,000	\$(12,396,000)	\$10,488,000

**ITEM 16. 10-K SUMMARY**

Omitted at registrant's option.

## Index to Exhibits

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of salesforce.com, inc.		8-K	001-32224	3.1	6/3/2016
3.2	Amended and Restated Bylaws of salesforce.com, inc.		8-K	001-32224	3.2	3/21/2016
4.1	Specimen Common Stock Certificate		S-1/A	333-111289	4.2	4/20/2004
4.2	Indenture dated March 18, 2013 between salesforce.com, inc. and U.S. Bank National Association including the form of 0.25% Convertible Senior Notes due 2018 therein		8-K	001-32224	4.1	3/18/2013
10.1*	Form of Indemnification Agreement between salesforce.com, inc. and its officers and directors		S-1/A	333-111289	10.1	4/20/2004
10.2*	Amended and Restated 2013 Equity Incentive Plan		8-K	001-32224	10.1	6/7/2017
10.3*	Amended and Restated 2004 Employee Stock Purchase Plan		8-K	001-32224	10.2	6/7/2017
10.4*	MetaMind, Inc. 2014 Stock Incentive Plan		S-8	333-211510	4.1	5/20/2016
10.5*	2014 Inducement Equity Incentive Plan, as amended		S-8	333-213685	4.3	9/16/2016
10.6*	Related forms of equity agreements under the Amended and Restated 2014 Inducement Equity Incentive Plan		10-Q	001-32224	10.4	8/25/2017
10.7*	Related forms of equity agreements under the Amended and Restated 2013 Equity Incentive Plan		10-Q	001-32224	10.5	8/25/2017
10.8*	Related forms of equity agreements under the Amended and Restated 2004 Employee Stock Purchase Plan		10-Q	001-32224	10.6	8/25/2017
10.9*	Kokua Bonus Plan, as amended and restated December 5, 2014, effective February 1, 2015		10-K	001-32224	10.7	3/6/2015
10.10	Resource Sharing Agreement, dated August 1, 2015, by and between salesforce.com, inc., the salesforce.com foundation, and Salesforce.org		10-Q	001-32224	10.5	8/25/2015
10.11	Reseller Agreement, dated August 1, 2015, between salesforce.com, inc. and Salesforce.org		10-Q	001-32224	10.4	8/25/2015
10.12	Amendment to Reseller Agreement, dated October 13, 2015, between salesforce.com, inc. and Salesforce.org		10-Q	001-32224	10.1	11/20/2015
10.13	Amendment to Reseller Agreement, dated May 1, 2017, between salesforce.com, inc. and Salesforce.org		10-Q	001-32224	10.1	8/25/2017

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.14	Form of Sub-Reseller Agreement to Reseller Agreement between salesforce.com, inc. and Salesforce.org		10-Q	001-32224	10.1	11/22/2017
10.15*	Form of Offer Letter for Executive Officers and schedule of omitted details thereto		10-K	001-32224	10.11	3/9/2012
10.16*	Employment Offer Letter, dated May 2, 2013 between salesforce.com, inc. and Keith Block		8-K	001-32224	10.1	6/11/2013
10.17*	Employment Offer Letter, dated June 11, 2014, between salesforce.com, inc. and Mark Hawkins		8-K	001-32224	10.1	6/30/2014
10.18*	Form of Change of Control and Retention Agreement as entered into with Marc Benioff		10-K	001-32224	10.13	3/9/2009
10.19*	Form of Change of Control and Retention Agreement as entered into with non-CEO Executive Officers		10-K	001-32224	10.14	3/9/2009
10.20*	Form of Performance-Based Restricted Stock Unit Agreement for Executive Officers		10-K	001-32224	10.17	3/6/2017
10.21	Form of Convertible Bond Hedge Confirmation		8-K	001-32224	10.2	3/18/2013
10.22	Form of Warrant Confirmation		8-K	001-32224	10.3	3/18/2013
10.23	Office Lease dated as of April 10, 2014 by and between salesforce.com, inc. and Transbay Tower LLC		10-Q	001-32224	10.2	5/30/2014
10.24	Purchase and Sale Agreement, dated November 10, 2014, between salesforce.com, inc. and 50 Fremont Tower, LLC		10-Q	001-32224	10.2	11/26/2014
10.25	Credit Agreement, dated as of July 7, 2016, by and among salesforce.com, inc., the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent		8-K	001-32224	10.1	7/11/2016
10.26	Amended and Restated Credit Agreement, dated as of July 7, 2016, by and among salesforce.com, inc., the subsidiaries of the Company party thereto as guarantors, the lenders from time to time thereto and Wells Fargo Bank, N.A., as Administrative Agent		8-K	001-32224	10.2	7/11/2016
12.1	Computation of Ratio of Earnings to Fixed Charges	X				
21.1	List of Subsidiaries	X				
23.1	Consent of Independent Registered Public Accounting Firm	X				

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)	X				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Extension Definition					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

\* Indicates a management contract or compensatory plan or arrangement.





## POWER OF ATTORNEY AND SIGNATURES

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Marc Benioff, Mark J. Hawkins, Joe Allanson and Amy Weaver, his or her attorney-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorney-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ MARC BENIOFF <b>Marc Benioff</b>	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 9, 2018
/s/ MARK J. HAWKINS <b>Mark J. Hawkins</b>	President and Chief Financial Officer (Principal Financial Officer)	March 9, 2018
/s/ JOE ALLANSON <b>Joe Allanson</b>	Executive Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 9, 2018
/s/ KEITH BLOCK <b>Keith Block</b>	Director, Vice Chairman, President and Chief Operating Officer	March 9, 2018
/s/ CRAIG CONWAY <b>Craig Conway</b>	Director	March 9, 2018
/s/ ALAN HASSENFELD <b>Alan Hassenfeld</b>	Director	March 9, 2018
/s/ NEELIE KROES <b>Neelie Kroes</b>	Director	March 9, 2018
/s/ COLIN POWELL <b>Colin Powell</b>	Director	March 9, 2018
/s/ SANFORD R. ROBERTSON <b>Sanford R. Robertson</b>	Director	March 9, 2018
/s/ JOHN V. ROOS <b>John V. Roos</b>	Director	March 9, 2018

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <i>/s/</i> BERNARD TYSON <b>Bernard Tyson</b>	Director	March 9, 2018
<hr/> <i>/s/</i> ROBIN WASHINGTON <b>Robin Washington</b>	Director	March 9, 2018
<hr/> <i>/s/</i> MAYNARD WEBB <b>Maynard Webb</b>	Director	March 9, 2018
<hr/> <i>/s/</i> SUSAN WOJCICKI <b>Susan Wojcicki</b>	Director	March 9, 2018

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SALESFORCE FORM 10-K

# Board of Directors

<b>Marc Benioff</b>	Chairman of the Board of Directors & Chief Executive Officer
<b>Keith Block</b>	Vice Chairman, President & Chief Operating Officer
<b>Craig Conway</b>	Former Chief Executive Officer, PeopleSoft Inc.
<b>Alan Hassenfeld</b>	Director, Hasbro Inc.
<b>Neelie Kroes</b>	Former Vice President of the European Commission
<b>Colin Powell</b>	General; Former U.S. Secretary of State; Former Chairman, Joint Chiefs of Staff
<b>Sanford Robertson</b>	Principal, Francisco Partners
<b>John V. Roos</b>	Former U.S. Ambassador to Japan
<b>Bernard J. Tyson</b>	Chairman & Chief Executive Officer of Kaiser Foundation Health Plan Inc. and Hospitals
<b>Robin L. Washington</b>	Executive Vice President & Chief Financial Officer, Gilead Sciences Inc.
<b>Maynard Webb</b>	Founder, Webb Investment Network; Director, Visa Inc.
<b>Susan Wojcicki</b>	Chief Executive Officer, YouTube Inc.

# Executive Team

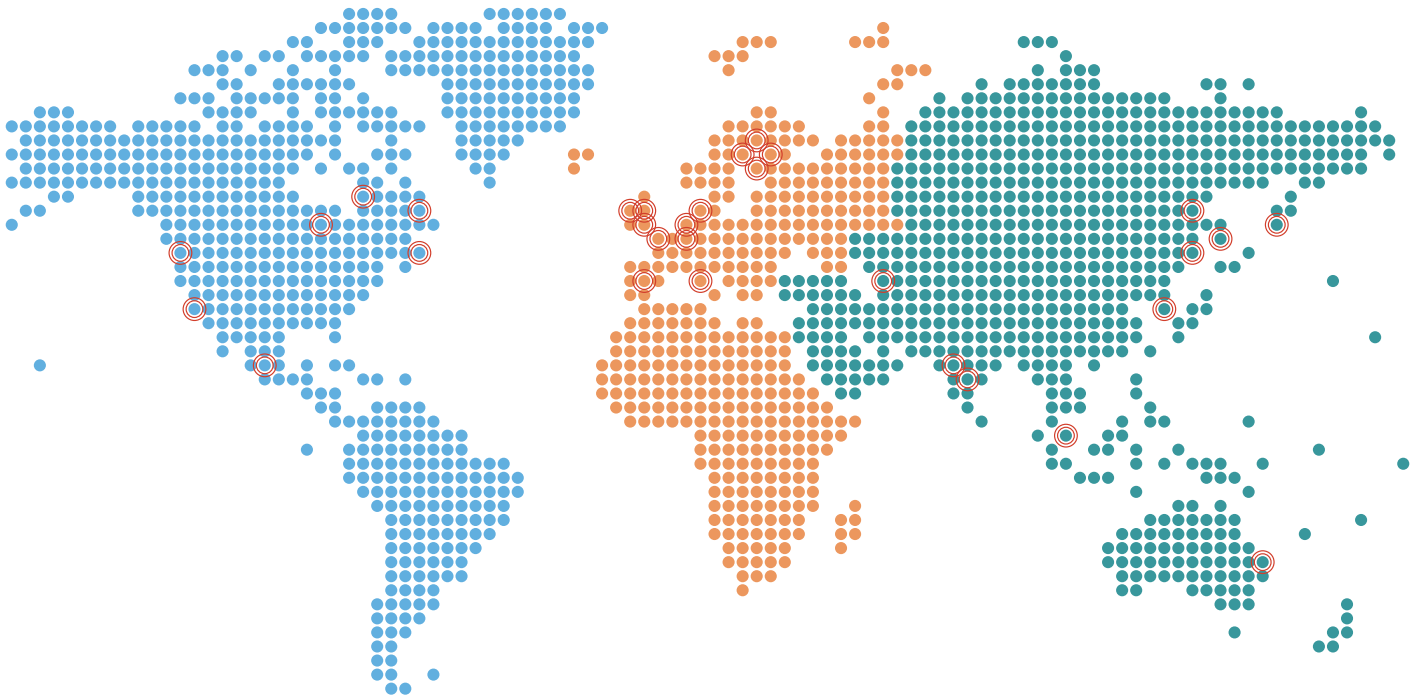
<b>Marc Benioff</b>	Chairman of the Board of Directors & Chief Executive Officer
<b>Joe Allanson</b>	Chief Accounting Officer & Corporate Controller
<b>Keith Block</b>	Vice Chairman, President & Chief Operating Officer
<b>Alexandre Dayon</b>	President & Chief Strategy Officer
<b>Parker Harris</b>	Co-Founder & Chief Technology Officer
<b>Mark Hawkins</b>	President & Chief Financial Officer
<b>Cindy Robbins</b>	President & Chief People Officer
<b>Bret Taylor</b>	President & Chief Product Officer
<b>Amy Weaver</b>	President, Legal, General Counsel & Secretary

**Investor Relations** [investor@salesforce.com](mailto:investor@salesforce.com), +1-415-536-6250

**Stock Listing** Salesforce trades on the New York Stock Exchange under the ticker symbol "CRM."

## Note on Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. Actual results could differ materially from those expressed in such statements. Further information on factors that could affect results is included in the fiscal 2018 Form 10-K, included in this annual report.



WORLDWIDE CORPORATE HEADQUARTERS

[salesforce.com](https://www.salesforce.com)

The Landmark @ One Market, Suite 300

San Francisco, CA 94105, USA

1-800-NO-SOFTWARE



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