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

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended July 31, 2016

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	**94-3320693**
(State or other jurisdiction of incorporation or organization)	**(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)

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

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

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

As of July 31, 2016 , there were approximately 685.0 million shares of the Registrant's Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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Consolidated Balance Sheets
(in thousands)

	July 31, 2016	January 31, 2016
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,115,226	$ 1,158,363
Short-term marketable securities	59,057	183,018
Accounts receivable, net	1,323,114	2,496,165
Deferred commissions	236,750	259,187
Prepaid expenses and other current assets	543,852	250,594
Total current assets	3,277,999	4,347,327
Marketable securities, noncurrent	545,663	1,383,996
Property and equipment, net	1,728,243	1,715,828
Deferred commissions, noncurrent	169,245	189,943
Capitalized software, net	626,214	384,258
Goodwill	6,029,895	3,849,937
Strategic investments	548,258	520,721
Other assets, net	1,455,797	370,910
Total assets	$ 14,381,314	$ 12,762,920
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 1,567,896	$ 1,349,338
Deferred revenue	3,808,200	4,267,667
Total current liabilities	5,376,096	5,617,005
Convertible 0.25% senior notes, net	1,102,150	1,088,097
Term loan	496,646	0
Loan assumed on 50 Fremont	198,133	197,998
Deferred revenue, noncurrent	15,361	23,886
Other noncurrent liabilities	1,060,352	833,065
Total liabilities	8,248,738	7,760,051
Stockholders' equity:		
Common stock	685	671
Additional paid-in capital	6,519,267	5,705,386
Accumulated other comprehensive loss	(11,215)	(49,917)
Accumulated deficit (See Note 1)	(376,161)	(653,271)
Total stockholders' equity	6,132,576	5,002,869
Total liabilities and stockholders' equity	$ 14,381,314	$ 12,762,920

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Revenues:				
Subscription and support	$ 1,886,080	$ 1,521,319	$ 3,661,573	$ 2,926,606
Professional services and other	150,538	113,365	291,648	219,245
Total revenues	2,036,618	1,634,684	3,953,221	3,145,851
Cost of revenues (1)(2):				
Subscription and support	360,943	292,737	696,771	566,978
Professional services and other	164,636	112,647	325,789	220,208
Total cost of revenues	525,579	405,384	1,022,560	787,186
Gross profit	1,511,039	1,229,300	2,930,661	2,358,665
Operating expenses (1)(2):				
Research and development	291,506	234,100	552,476	456,228
Marketing and sales	934,931	793,691	1,830,791	1,530,629
General and administrative	252,051	181,685	462,857	357,496
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(36,617)
Total operating expenses	1,478,488	1,209,476	2,846,124	2,307,736
Income from operations	32,551	19,824	84,537	50,929
Investment income	11,916	3,283	20,038	7,844
Interest expense	(20,708)	(18,096)	(42,719)	(34,771)
Other income (expense) (1)	524	1,947	(13,282)	1,029
Gains on sales of strategic investments	0	0	12,864	0
Income before benefit from (provision for) income taxes	24,283	6,958	61,438	25,031
Benefit from (provision for) income taxes (3)	205,339	(7,810)	206,943	(21,791)
Net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240
Basic net income (loss) per share	$ 0.34	$0.00	$ 0.40	$0.00
Diluted net income (loss) per share	$ 0.33	$0.00	$ 0.39	$0.00
Shares used in computing basic net income (loss) per share	681,126	659,366	678,929	656,636
Shares used in computing diluted net income (loss) per share	695,968	659,366	691,714	672,231

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

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Cost of revenues	$ 25,544	$ 20,839	$ 47,759	$ 40,529
Marketing and sales	23,151	19,002	38,537	39,029
Other non-operating expense	642	1,301	1,348	2,116

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

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Cost of revenues	$ 23,495	$ 16,340	$ 50,129	$ 31,721
Research and development	38,624	33,732	73,792	64,974
Marketing and sales	86,323	71,724	181,797	142,258
General and administrative	33,868	25,983	65,511	51,386

(3) Amounts include a $265.7 million tax benefit recorded during the three months ended July 31, 2016 as a result of the release of a portion of the valuation allowance related to the Demandware, Inc. acquisition. See Note 8 “Income Taxes.”

See accompanying Notes.

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Consolidated Statements of Comprehensive Income (Loss)
(in thousands)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240
Other comprehensive income (loss), before tax and net of reclassification adjustments:				
Foreign currency translation and other losses	(10,407)	(5,391)	(151)	(7,246)
Unrealized gains on investments	25,896	5,599	36,980	3,210
Other comprehensive income (loss), before tax	15,489	208	36,829	(4,036)
Tax effect	1,873	0	1,873	0
Other comprehensive income (loss), net of tax	17,362	208	38,702	(4,036)
Comprehensive income (loss)	$ 246,984	$ (644)	$ 307,083	$ (796)

See accompanying Notes.

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Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Operating activities:				
Net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	149,361	131,675	282,133	259,602
Amortization of debt discount and transaction costs	6,868	7,291	14,053	13,152
Gains on sales of strategic investments	0	0	(12,864)	0
50 Fremont lease termination	0	0	0	(36,617)
Amortization of deferred commissions	88,783	76,679	177,297	153,834
Expenses related to employee stock plans	182,310	147,779	371,229	290,339
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	(73,167)	(141,418)	1,234,145	837,752
Deferred commissions	(70,643)	(70,745)	(134,162)	(120,837)
Prepaid expenses and other current assets and other assets	(9,728)	(18,072)	(66,399)	(29,346)
Accounts payable, accrued expenses and other liabilities	(46,666)	193,771	(332,894)	(45,301)
Deferred revenue	(206,062)	(21,830)	(499,179)	(286,459)
Net cash provided by operating activities (1)	250,678	304,278	1,301,740	1,039,359
Investing activities:				
Business combinations, net of cash acquired	(2,798,194)	(18,451)	(2,799,993)	(30,921)
Purchase of 50 Fremont land and building	0	0	0	(425,376)
Deposit for purchase of 50 Fremont land and building	0	0	0	115,015
Non-refundable amounts received for sale of land available for sale	0	3,432	0	6,284
Strategic investments, net	(390)	(150,434)	(22,451)	(294,896)
Purchases of marketable securities	(285,795)	(136,196)	(875,131)	(343,421)
Sales of marketable securities	1,610,724	130,922	1,833,658	323,106
Maturities of marketable securities	27,253	1,833	50,538	16,279
Capital expenditures	(96,030)	(64,883)	(179,331)	(135,970)
Net cash used in investing activities	(1,542,432)	(233,777)	(1,992,710)	(769,900)
Financing activities:				
Proceeds from term loan, net	495,550	0	495,550	0
Proceeds from employee stock plans	133,878	114,799	223,019	269,814
Principal payments on capital lease obligations	(12,795)	(41,074)	(62,763)	(57,899)
Payments on revolving credit facility	0	0	0	(300,000)
Net cash provided by (used in) financing activities (1)	616,633	73,725	655,806	(88,085)
Effect of exchange rate changes	(8,736)	3,169	(7,973)	(140)
Net increase (decrease) in cash and cash equivalents	(683,857)	147,395	(43,137)	181,234
Cash and cash equivalents, beginning of period	1,799,083	941,956	1,158,363	908,117
Cash and cash equivalents, end of period	$ 1,115,226	$ 1,089,351	$ 1,115,226	$ 1,089,351

1) During the six months ended July 31, 2016, the Company early adopted Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting (Topic 718)" ("ASU 2016-09"), which addresses among other items, updates to the presentation and treatment of excess tax benefits related to stock based compensation. Excess tax benefits are no longer classified as a reduction of operating cash flows. The Company has adopted changes to the consolidated statements of cash flows on a retrospective basis. The impact for the three and six months ended July 31, 2015 was a decrease of $133 and increase of $4,091 to net cash provided by operating activities with a correlating offset of equal amounts to net cash provided by (used in) financing activities, respectively.

See accompanying Notes.

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Consolidated Statements of Cash Flows

Supplemental Cash Flow Disclosure

(in thousands)

(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	$ 6,285	$ 20,592	$ 30,035	$ 28,671
Income taxes, net of tax refunds	$ 6,322	$ 5,621	$ 14,231	$ 16,202
Non-cash operating, financing and investing activities:				
Fixed assets acquired under capital leases	$ 0	$ 2,166	$ 585	$ 5,126
Building - leased facility acquired under financing obligation	$ 0	$ 14,636	$ 0	$ 36,859
Fair value of loan assumed on 50 Fremont	$ 0	$ 0	$ 0	$ 198,751
Fair value of equity awards assumed	$ 9,344	$ 0	$ 20,793	$ 0
Fair value of common stock issued as consideration for business combination	$ 0	$ 0	$ 278,372	$ 0
Non-cash equity liability (See Note 6)	76,043	$ 0	76,043	$ 0

See accompanying Notes.

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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 cloud computing solutions, with a focus on customer relationship management, or CRM. The Company introduced its first CRM solution in February 2000, and has since expanded its service offerings with new editions, solutions, features and platform capabilities.

The Company's mission is to help its customers transform themselves into customer-centric companies by empowering them to connect with their customers in entirely new ways. The Company's Customer Success Platform includes among other things sales force automation, customer service and support, marketing automation, community management, analytics, application development, Internet of Things integration and the Company's professional cloud services, provide the next-generation platform of enterprise applications and services to enable customer success.

Fiscal Year

The Company's fiscal year ends on January 31. References to fiscal 2017, for example, refer to the fiscal year ending January 31, 2017 .

Basis of Presentation

The accompanying consolidated balance sheet as of July 31, 2016 and the consolidated statements of operations, the consolidated statements of comprehensive income (loss) and the consolidated statements of cash flows for the three and six months ended July 31, 2016 and 2015 , respectively, are unaudited. The consolidated balance sheet data as of January 31, 2016 was derived from the audited consolidated financial statements that are included in the Company's fiscal 2016 Form 10-K, which was filed with the Securities and Exchange Commission (the "SEC") on March 7, 2016 . The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company's fiscal 2016 Form 10-K.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company's management, the unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of the Company's balance sheet as of July 31, 2016 , and its results of operations, including its comprehensive income (loss), and its cash flows for the three and six months ended July 31, 2016 and 2015 . All adjustments are of a normal recurring nature. The results for the three and six months ended July 31, 2016 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2017 .

Use of Estimates

The preparation of financial statements in conformity with 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 convertible notes,
- the fair value of stock awards issued and related forfeiture rates,
- 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 several 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, 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 trade accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for doubtful accounts receivable balances. 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.

No single customer accounted for more than five percent of accounts receivable at July 31, 2016 and January 31, 2016 . No single customer accounted for five percent or more of total revenue during the three and six months ended July 31, 2016 and 2015 .

Geographic Locations

As of July 31, 2016 and January 31, 2016 , assets located outside the Americas were nine percent and 11 percent of total assets.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Americas	$ 1,495,201	$ 1,202,173	$ 2,908,430	$ 2,317,293
Europe	347,320	286,904	675,174	545,709
Asia Pacific	194,097	145,607	369,617	282,849
	$ 2,036,618	$ 1,634,684	$ 3,953,221	$ 3,145,851

Americas revenue attributed to the United States was approximately 96 percent and 95 percent during the three months ended July 31, 2016 and 2015 , respectively, and was approximately 96 percent and 95 percent for the six months ended July 31, 2016 and 2015 , respectively. No other country represented more than ten percent of total revenue during the three and six months ended July 31, 2016 and 2015 .

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 material or fixed fee basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized 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 upon delivery, 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 revenue that will be recognized during the succeeding twelve month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Deferred Commissions

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.

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

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. 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 (loss). 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 component of investment income. In order 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. 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.

Fair Value Measurement

The Company measures its 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 2 “Investments.”

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 Internal-Use 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.

Goodwill and Intangible Assets Impairment Assessments

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

Intangible assets are amortized over their 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. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, then the carrying amount of such assets is reduced to fair value.

Long-Lived Assets and Impairment Assessment

The Company evaluates long-lived assets for possible impairment whenever events or 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. If such review indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. There was no impairment of long-lived assets during the three and six months ended July 31, 2016 and 2015 , respectively.

Business Combinations

The Company uses its best estimates and assumptions to accurately 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 established 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 that the Company enters into a business combination with an entity in which the Company previously held a strategic investment, significant gains or losses will be 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. Losses are recognized in the period the sublease is executed. 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 over the requisite service period of the awards, which is generally the vesting term of four years . The aggregate stock compensation remaining to be amortized to costs and expenses will be recognized over a weighted average period of 2.3 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 . Stock-based expenses are recognized net of estimated forfeiture activity. 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.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
Stock Options	**2016**	**2015**	**2016**	**2015**
Volatility	32.3 %	35 %	32.1 - 32.3 %	35-37 %
Estimated life	3.5 years	3.6 years	3.5 years	3.6 years
Risk-free interest rate	0.89 - 1.06 %	1.31- 1.42 %	0.89 - 1.06 %	1.13- 1.42 %
Weighted-average fair value per share of grants	$ 20.22	$ 20.24	$ 18.76	$ 19.81

	Three Months Ended July 31,	
ESPP	**2016**	**2015**
Volatility	34 %	34 %
Estimated life	0.75 years	0.75 years
Risk-free interest rate	0.47 - 0.59 %	0.06- 0.27 %
Weighted-average fair value per share of grants	$ 21.93	$ 19.30

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.

ESPP assumptions and the related fair value per share table will only be disclosed in the three month period in which there is ESPP activity, such as an ESPP purchase. The Company's ESPP Plan allows for two purchases during the year, one during the second quarter and one during the fourth quarter. The estimated life of the ESPP will be based on the two purchase periods within each offering period.

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.

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 statement of operations in the period that includes the enactment date.

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.

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.

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 (loss). Foreign currency transaction gains and losses are included in net income (loss) 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 2017

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability rather than an asset that is amortized. However, ASU 2015-03 does not address deferred issuance costs for line-of-credit arrangements; therefore, in August 2015, the FASB issued Accounting Standards Update No. 2015-15, "Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). ASU 2015-15 allows an entity to defer debt issuance costs associated with line-of-credit arrangements, including arrangements with no outstanding borrowings, and classify them as an asset, and amortize them over the term of the arrangements. The recognition and measurement guidance for debt issuance costs is not affected by the standards. The Company adopted the standards in the three months ended April 30, 2016. Upon adoption, the unamortized debt issuance costs previously reported in Other assets, net, with a carrying amount of approximately $7.9 million at January 31, 2016, were reclassified and presented as a deduction of the corresponding liabilities, Convertible 0.25% senior notes, net and Loan assumed on 50 Fremont.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments (Topic 805)" ("ASU 2015-16"), which eliminates the requirement to restate prior period financial statements for measurement period adjustments in business combinations. ASU 2015-16 requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The Company adopted this standard during the three months ending April 30, 2016 and there was no material impact of this on the Company's financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting" ("ASU 2016-09"), which simplifies and improves several aspects of the accounting for employee share-based payment transactions for public entities. The new guidance requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the statement of cash flows. The Company adopted the standard in the three months ended April 30, 2016. Upon adoption, the Company recognized the previously unrecognized excess tax benefits using the modified retrospective transition method, which resulted in a cumulative-effect adjustment of $8.7 million to accumulated deficit. This adjustment reduced the April 30, 2016 accumulated deficit balance. The previously unrecognized excess tax effects were recorded as a deferred tax asset, which was fully offset by a valuation allowance. Without the valuation allowance, the Company's deferred tax asset would have increased by $614.5 million . The Company also elected to apply the change in presentation to the statements of cash flows retrospectively and no longer classified the excess tax benefits from employee stock plans as a reduction from operating cash flows for all periods presented.

Pending Accounting Pronouncements

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. This standard establishes a principle for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining and fulfilling customer contracts. The FASB deferred the effective date for the new revenue reporting standard for entities reporting under U.S. GAAP for one year. In accordance with the deferral, ASU 2014-09 will be effective for fiscal 2019, including interim periods within that reporting period. The Company is currently in the process of assessing the adoption methodology, which allows the amendment to be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial application. The Company is also evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements and has not determined whether the effect will be material to either its revenue results or its accounting for deferred commissions balances.

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 investments at fair value and recognize any changes in fair value in net income. However, for equity investments that do not have readily determinable fair values and do not qualify for the existing practical expedient, the investments will be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The new standard is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASC 2016-01 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 income statements in a manner similar to current practice. 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 and early adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

2. Investments

Marketable Securities

At July 31, 2016 , marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 303,091	$ 3,663	$ (64)	$ 306,690
U.S. treasury securities	40,402	391	(3)	40,790
Mortgage backed obligations	74,286	283	(48)	74,521
Asset backed securities	124,318	356	(32)	124,642
Municipal securities	46,203	392	(1)	46,594
Foreign government obligations	11,412	71	0	11,483
Total marketable securities	$ 599,712	$ 5,156	$ (148)	$ 604,720

At January 31, 2016 , marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 949,266	$ 1,398	$ (2,983)	$ 947,681
U.S. treasury securities	157,625	375	(56)	157,944
Mortgage backed obligations	104,242	106	(323)	104,025
Asset backed securities	271,292	186	(226)	271,252
Municipal securities	44,934	209	(6)	45,137
Foreign government obligations	18,014	42	(5)	18,051
U.S. agency obligations	16,076	16	(6)	16,086
Covered bonds	6,690	148	0	6,838
Total marketable securities	$ 1,568,139	$ 2,480	$ (3,605)	$ 1,567,014

The duration of the investments classified as marketable securities is as follows (in thousands):

	As of	
	July 31, 2016	January 31, 2016
Recorded as follows:		
Short-term (due in one year or less)	$ 59,057	$ 183,018
Long-term (due after one year)	545,663	1,383,996
	$ 604,720	$ 1,567,014

As of July 31, 2016 , the following marketable securities were in an unrealized loss position (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	$ 20,262	$ (27)	$ 7,305	$ (37)	$ 27,567	$ (64)
U.S. treasury securities	4,847	(3)	0	0	4,847	(3)
Mortgage backed obligations	20,115	(38)	1,280	(10)	21,395	(48)
Asset backed securities	19,241	(17)	7,512	(15)	26,753	(32)
Municipal securities	304	(1)	0	0	304	(1)
	$ 64,769	$ (86)	$ 16,097	$ (62)	$ 80,866	$ (148)

The unrealized losses for each of the fixed rate marketable securities were less than $12,000 . 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 July 31, 2016 . The Company expects to receive the full principal and interest on all of these marketable securities.

Fair Value Measurement

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 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. Other inputs that are directly or indirectly observable in the marketplace.

Level 3. Unobservable inputs which are supported by little or no market activity.

The following table presents information about the Company's assets and liabilities that are measured at fair value as of July 31, 2016 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 July 31, 2016
Cash equivalents (1):				
Time deposits	$ 0	$ 7,327	$ 0	$ 7,327
Money market mutual funds	400,732	0	0	400,732
Marketable securities:				
Corporate notes and obligations	0	306,690	0	306,690
U.S. treasury securities	0	40,790	0	40,790
Mortgage backed obligations	0	74,521	0	74,521
Asset backed securities	0	124,642	0	124,642
Municipal securities	0	46,594	0	46,594
Foreign government obligations	0	11,483	0	11,483
Foreign currency derivative contracts (2)	0	3,855	0	3,855
Total assets	$ 400,732	$ 615,902	$ 0	$ 1,016,634
Liabilities				
Foreign currency derivative contracts (3)	$ 0	$ 4,127	$ 0	$ 4,127
Total liabilities	$ 0	$ 4,127	$ 0	$ 4,127

(1) Included in "cash and cash equivalents" in the accompanying consolidated balance sheet as of July 31, 2016 , in addition to $707.2 million of cash.
(2) Included in "prepaid expenses and other current assets" in the accompanying consolidated balance sheet as of July 31, 2016 .
(3) Included in "accounts payable, accrued expenses and other liabilities" in the consolidated balance sheet as of July 31, 2016 .

The following table presents information about the Company’s assets and liabilities that are measured at fair value as of January 31, 2016 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, 2016
Cash equivalents (1):				
Time deposits	$ 0	$ 236,798	$ 0	$ 236,798
Money market mutual funds	216,107	0	0	216,107
Commercial paper	0	159,230	0	159,230
Agency and sovereign paper	0	13,599	0	13,599
Marketable securities:				
Corporate notes and obligations	0	947,681	0	947,681
U.S. treasury securities	0	157,944	0	157,944
Mortgage backed obligations	0	104,025	0	104,025
Asset backed securities	0	271,252	0	271,252
Municipal securities	0	45,137	0	45,137
Foreign government obligations	0	18,051	0	18,051
U.S. agency obligations	0	16,086	0	16,086
Covered bonds	0	6,838	0	6,838
Foreign currency derivative contracts (2)	0	4,731	0	4,731
Total Assets	$ 216,107	$ 1,981,372	$ 0	$ 2,197,479
Liabilities				
Foreign currency derivative contracts (3)	$ 0	$ 14,025	$ 0	$ 14,025
Total Liabilities	$ 0	$ 14,025	$ 0	$ 14,025

(1) Included in “cash and cash equivalents” in the accompanying consolidated balance sheet as of January 31, 2016 , in addition to $532.6 million of cash.
(2) Included in “prepaid expenses and other current assets” in the accompanying consolidated balance sheet as of January 31, 2016 .
(3) Included in “accounts payable, accrued expenses and other liabilities” in the accompanying consolidated balance sheet as of January 31, 2016 .

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 British Pound Sterling, the Euro and Japanese Yen. 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 July 31, 2016 and January 31, 2016 , the foreign currency derivative contracts that were not settled 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.

Details on outstanding foreign currency derivative contracts related primarily to intercompany receivables and payables are presented below (in thousands):

	As of	
	July 31, 2016	January 31, 2016
Notional amount of foreign currency derivative contracts	$ 1,280,090	$ 1,274,515
Fair value of foreign currency derivative contracts	$ (272)	$ (9,294)

The fair value of the Company's outstanding derivative instruments are summarized below (in thousands):

		Fair Value of Derivative Instruments As of	
	Balance Sheet Location	July 31, 2016	January 31, 2016
Derivative Assets			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Prepaid expenses and other current assets	$ 3,855	$ 4,731
Derivative Liabilities			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Accounts payable, accrued expenses and other liabilities	$ 4,127	$ 14,025

The effect of the derivative instruments not designated as hedging instruments on the consolidated statements of operations during the three and six months ended July 31, 2016 and 2015 , respectively, are summarized below (in thousands):

Derivatives Not Designated as Hedging Instruments	Gains (losses) on Derivative Instruments Recognized in Income (losses)		
		Three Months Ended July 31,	
	Location	2016	2015
Foreign currency derivative contracts	Other income (expense)	$ (33,836)	$ 9,494

Derivatives Not Designated as Hedging Instruments	Gains (losses) on Derivative Instruments Recognized in Income (losses)		
		Six Months Ended July 31,	
	Location	2016	2015
Foreign currency derivative contracts	Other income (expense)	$ (47,176)	$ 14,069

Strategic Investments

The Company's strategic investments are comprised of marketable equity securities and non-marketable debt and equity securities. Marketable equity securities are measured using quoted prices in their respective active markets and the non-marketable equity and debt securities are recorded at cost. These investments are presented on the consolidated balance sheets within strategic investments.

As of July 31, 2016 , the Company had six investments in marketable equity securities with a fair value of $56.6 million , which includes an unrealized gain of $39.8 million . As of January 31, 2016 , the Company had six investments in marketable equity securities with a fair value of $16.2 million , which included an unrealized gain of $8.5 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 loss.

The Company's interest in non-marketable debt and equity securities consists of noncontrolling debt and equity investments in privately held companies. The Company’s investments in these privately held companies are reported at cost or marked down to fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. 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.

As of July 31, 2016 and January 31, 2016 , the carrying value of the Company’s non-marketable debt and equity securities was $491.7 million and $504.5 million , respectively. The estimated fair value of the non-marketable debt and equity securities was approximately $700.1 million and $714.1 million as of July 31, 2016 and January 31, 2016 , respectively. These investments are measured using the cost method of accounting, therefore the unrealized gains of $208.4 million and $209.6 million as of July 31, 2016 and January 31, 2016 , respectively, are not recorded in the consolidated financial statements.

The carrying value of the Company’s strategic investments is impacted by various events such as entering into new investments, 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 or initial public offerings. The cash inflows from exits and cash outflows from new investments are disclosed as Strategic investments, net, within the investing activities section of the Statement of Cash Flows and any gains or losses or fair market value adjustments are recorded within the operating activities of the Statement of Cash Flows for each of the respective fiscal quarter periods.

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):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Interest income	$ 6,546	$ 3,169	$ 14,319	$ 6,219
Realized gains	6,507	813	7,561	2,940
Realized losses	(1,137)	(699)	(1,842)	(1,315)
Total investment income	$ 11,916	$ 3,283	$ 20,038	$ 7,844

Reclassification adjustments out of accumulated other comprehensive income (loss) into net income were immaterial for the three and six months ended July 31, 2016 and 2015 , respectively.

3. Property and Equipment

Property and Equipment

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

	As of	
	July 31, 2016	January 31, 2016
Land	$ 183,888	$ 183,888
Buildings and building improvements	619,071	614,081
Computers, equipment and software	1,374,949	1,281,766
Furniture and fixtures	95,995	82,242
Leasehold improvements	531,760	473,688
	$ 2,805,663	$ 2,635,665
Less accumulated depreciation and amortization	(1,077,420)	(919,837)
	$ 1,728,243	$ 1,715,828

Depreciation and amortization expense totaled $80.1 million and $76.7 million during the three months ended July 31, 2016 and 2015 , respectively, and totaled $155.7 million and $149.2 million during the six months ended July 31, 2016 and 2015 , respectively.

Computers, equipment and software at July 31, 2016 and January 31, 2016 included a total of $747.9 million and $747.1 million acquired under capital lease agreements, respectively. Accumulated amortization relating to computers, equipment and software under capital leases totaled $359.9 million and $310.3 million , respectively, at July 31, 2016 and January 31, 2016 . Amortization of assets under capital leases is included in depreciation and amortization expense.

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 the construction project. 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. As of July 31, 2016 , the Company had capitalized $178.8 million of construction costs, based on the construction costs incurred to date by the landlord, and recorded a corresponding current and noncurrent financing obligation liability of $19.4 million and $201.8 million , respectively. As of January 31, 2016 , the Company had capitalized $174.6 million of construction costs, based on the construction costs incurred to date by the landlord, and recorded a corresponding current and noncurrent financing obligation liability of $15.4 million and $196.7 million , respectively. The total expected financing obligation in the form of minimum lease payments inclusive of the amounts currently recorded, is $332.9 million , including interest (see Note 10 “Commitments” for future commitment details). The obligation will be settled through monthly lease payments to the landlord which commenced on 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.

4. Business Combinations

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 help capture 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 preliminary 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 5), which consisted of the following (in thousands):

	Fair Value
Cash	$ 2,920,336
Fair value of stock options and restricted stock awards assumed	9,344
Total	$ 2,929,680

The preliminary estimated 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 preliminary estimated fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

	Fair Value
Cash and cash equivalents	$ 139,259
Marketable securities	37,230
Accounts receivable	56,982
Other current assets	13,631
Customer contract asset, current and noncurrent	716,056
Intangible assets	800,287
Property and equipment	29,463
Other noncurrent assets	4,579
Goodwill	1,884,886
Accounts payable, accrued expenses and other liabilities	(52,595)
Deferred revenue, current and noncurrent	(22,709)
Customer contract liability, current and noncurrent	(393,911)
Other liabilities, noncurrent	(11,967)
Deferred tax liability	(271,511)
Net assets acquired	$ 2,929,680

The excess of preliminary purchase consideration over the preliminary fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The preliminary fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. 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 preliminary estimated fair values of assets acquired and liabilities assumed, including current and noncurrent income taxes payable and deferred taxes, customer contract assets and liabilities and identifiable intangible assets may be subject to change as additional information is received and certain tax returns are finalized. Thus the provisional measurements of fair value set forth above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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

	Fair Value	Useful Life
Developed technology	$ 240,760	2 to 6 years
Customer relationships	547,370	3 to 6 years
Other purchased intangible assets	12,157	1 to 10 years
Total intangible assets subject to amortization	$ 800,287	

Developed technology represents the preliminary estimated fair value of Demandware's e-commerce technology. Customer relationships represent the preliminary estimated 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.

As of July 31, 2016, the aggregate intangible assets related to the Demandware, Inc. acquisition remaining to be amortized to operating expenses was $788.4 million . For the three months ended July 31, 2016 the Company recorded $11.9 million of amortization expense. The Company expects the intangible asset balance to be amortized as follows: $72.3 million for the remaining six months ended January 31, 2017, $137.7 million during fiscal 2018, $132.4 million during fiscal 2019, $131.1 million during fiscal 2020, $130.3 million during fiscal 2021.

The Company assumed unvested options and restricted stock with a preliminary estimated fair value of $135.2 million . Of the total consideration, $9.3 million was preliminarily allocated to the purchase consideration and $125.9 million was preliminarily allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

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 July 31, 2016 are as follows (in thousands):

Total revenues	$	9,121
Pretax loss	$	(19,853)

The following pro forma financial information summarizes the combined results of operations for the Company and Demandware, as though the companies were combined as of the beginning of the Company’s fiscal 2016.

The unaudited pro forma financial information was as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Total revenues	$ 2,073,502	$ 1,668,526	$ 4,031,391	$ 3,210,397
Pretax loss	$ (17,626)	$ (70,290)	$ (52,340)	$ (122,432)

The pro forma financial information for all periods presented has been calculated after adjusting the results of Demandware to reflect the business combination accounting effects resulting from this acquisition including the amortization expense from acquired intangible assets and the stock-based compensation expense for unvested stock options and restricted stock awards assumed as though the acquisition occurred as of the beginning of the Company’s fiscal year 2016. The historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination and factually supportable. The pro forma financial information is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company’s fiscal 2016.

The pro forma financial information for the three and six months ended July 31, 2016 and 2015 combines the historical results of the Company for the three and six months ended July 31, 2016 and 2015, the adjusted historical results of Demandware for the three and six months ended June 30, 2016 and 2015, due to differences in reporting periods and considering the date the Company acquired Demandware, and the effects of the pro forma adjustments listed above.

SteelBrick

In February 2016, the Company acquired the outstanding stock of SteelBrick, Inc. (“SteelBrick”) for the consideration 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, which have not been material to date. The transaction costs associated with the acquisition were not material.

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

	Fair Value
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	23,726
Total	$ 314,785

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 on sales of strategic investments on the consolidated statement of operations.

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

		Fair Value
Cash and cash equivalents	$	59,296
Other current and noncurrent tangible assets		3,012
Customer contract asset, current and noncurrent		16,903
Intangible assets		49,160
Goodwill		217,986
Deferred revenue, current and noncurrent		(8,479)
Customer contract liability, current and noncurrent		(9,949)
Other liabilities, current and noncurrent		(2,665)
Deferred tax liability		(10,479)
Net assets acquired	$	314,785

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair values assigned to tangible assets acquired, liabilities assumed and identifiable intangible assets are based on management's estimates and assumptions. 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 estimated fair values of assets acquired and liabilities assumed, specifically current and noncurrent income taxes payable and deferred taxes, may be subject to change as additional information is received and certain tax returns are finalized. Thus, the provisional measurements of fair value set forth above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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.

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

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 unvested equity awards for shares of SteelBrick's common stock with a fair value of $39.6 million . Of the total consideration, $11.0 million was allocated to the consideration transferred and $28.6 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

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 in its 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. In allocating the purchase consideration for MetaMind based on estimated fair values, the Company recorded $31.2 million of goodwill. The goodwill balance is not deductible for U.S. income tax purposes. The estimated fair values of assets acquired and liabilities assumed, specifically current and noncurrent income taxes payable and deferred taxes, may be subject to change as additional information is received and certain tax returns are finalized. Thus, the provisional measurements of fair value set forth above are subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The Company assumed unvested equity awards for shares of MetaMind's common stock with a fair value of $5.5 million . Of the total consideration, $0.5 million was allocated to the purchase consideration and $5.0 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

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 Business Combinations

During the six months ended July 31, 2016 , the Company acquired three other companies for an aggregate of $58.4 million in cash, net of cash acquired, and 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 $45.9 million of goodwill. The goodwill balance associated with these transactions is not deductible for U.S. income tax purposes. The Company expects to finalize the valuations as soon as practicable, but not later than one year from the acquisition dates.

5. Debt

Convertible Senior Notes

(in thousands)	Par Value Outstanding	Equity Component Recorded at Issuance	Liability Component of Par Value as of July 31, 2016	Liability Component of Par Value as of January 31, 2016
0.25% Convertible Senior Notes due April 1, 2018	$ 1,150,000	$ 122,421 (1)	$ 1,102,150	$ 1,088,097

(1) This amount represents the equity component recorded at the initial issuance of the 0.25% convertible senior notes.

In March 2013, the Company issued at par value $1.15 billion of 0.25% convertible senior notes (the " 0.25% Senior Notes", or the "Notes") due April 1, 2018 , unless earlier purchased by the Company or converted. 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:

	Conversion Rate per $1,000 Par Value	Initial Conversion Price per Share	Convertible Date
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.

Holders may convert the 0.25% Senior Notes under the following circumstances:

- during any fiscal quarter, if, for at least 20 trading days during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sales price of the Company’s common stock for such trading day is greater than or equal to 130% of the applicable conversion price on such trading day;
- in certain situations, when the trading price of the 0.25% Senior Notes is less than 98% of the product of the sale price of the Company’s common stock and the conversion rate;
- upon the occurrence of specified corporate transactions described under the 0.25% Senior Notes indenture, such as a consolidation, merger or binding share exchange; or
- at any time on or after the convertible date noted above.

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.

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 temporary stockholders’ equity and stockholders’ equity.

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

	As of	
	July 31, 2016	**January 31, 2016**
Liability component :		
Principal (1)	$ 1,150,000	$ 1,150,000
Less: debt discount, net (2)	(42,526)	(54,941)
Less: debt issuance cost (3)	(5,324)	(6,962)
Net carrying amount	$ 1,102,150	$ 1,088,097

(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 noncurrent liability) and is amortized over the life of the 0.25% Senior Notes using the effective interest rate method.
(3) In April 2015, the FASB issued ASU 2015-03 which simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability rather than an asset that is amortized. The Company retrospectively adopted this standard for the prior period presented.

The total estimated fair value of the Company's 0.25% Senior Notes at July 31, 2016 was $1.5 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 second quarter of fiscal 2017 .

Based on the closing price of the Company’s common stock of $81.80 on July 29, 2016 , the if-converted value of the 0.25% Senior Notes exceeded their principal amount by approximately $265.9 million . Based on the terms of the 0.25% Senior Notes, the Senior Notes were not convertible for the three and six months ended July 31, 2016 .

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 (the “ 0.25% Note Hedges”).

(in thousands, except for shares)	Date	Purchase	Shares
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.

Warrants

	Date	Proceeds (in thousands)	Shares	Strike Price
0.25% Warrants	March 2013	$ 84,800	17,308,880	$ 90.40

In March 2013, the Company also entered into a warrants transaction (the “ 0.25% Warrants”), whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, shares of the Company’s common stock. The 0.25% Warrants were anti-dilutive for the periods presented. 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 (the “Term Loan Credit Agreement”) with Bank of America, N.A. and certain other institutional lenders for a $500.0 million term loan facility (the “Term Loan”) that matures on July 11, 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 purposes 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 on July 11, 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 Term Loan Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries’ ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions and repurchase stock. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. The Term Loan Credit Agreement includes customary events of default. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Term Loan Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The occurrence of an event of default could result in the acceleration of obligations under the Term Loan Credit Agreement. The Company was in compliance with the Term Loan Credit Agreement’s covenants as of July 31, 2016 .

The weighted average interest rate on the Term Loan was 2.0% as of July 31, 2016. Accrued interest on the Term Loan was $0.6 million as of July 31, 2016. As of July 31, 2016, 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 (the " 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 (the "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 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.

The Revolving Loan Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends or make distributions and repurchase stock. The Company is also required to maintain compliance with a consolidated leverage ratio and a consolidated interest coverage ratio. The Revolving Loan Credit Agreement includes customary events of default. Under certain circumstances, a default interest rate will apply on all obligations during the existence of an event of default under the Revolving Loan Credit Agreement at a per annum rate equal to 2.00% above the applicable interest rate for any overdue principal and 2.00% above the rate applicable for base rate loans for any other overdue amounts. The occurrence of an event of default could result in the acceleration of obligations under the Revolving Loan Credit Agreement. The Company was in compliance with the Revolving Loan Credit Agreement's covenants as of July 31, 2016 .

There are currently no outstanding borrowings held under the Credit Facility as of July 31, 2016 . The Company continues to pay a commitment fee on the undrawn amount of the Credit Facility.

Loan Assumed on 50 Fremont

The Company assumed a $200.0 million loan with the acquisition of 50 Fremont (the "Loan"). The Loan bears an interest rate of 3.75% per annum and is due in June 2023. The Loan initially requires interest only payments. Beginning in fiscal year 2019, principal and interest payments are required, with the remaining principal due at maturity. For the three months ended July 31, 2016 and 2015 , total interest expense recognized was $1.9 million . For the six months ended July 31, 2016 and 2015 , total interest expense recognized was $3.8 million and $3.5 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 July 31, 2016 .

Interest Expense on Convertible Senior Notes, Term Loan, Revolving 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 prior to capitalization of interest (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Contractual interest expense	$ 3,377	$ 2,843	$ 6,191	$ 6,193
Amortization of debt issuance costs	1,701	1,032	2,729	2,050
Amortization of debt discount	6,264	6,110	12,490	12,169
	$ 11,342	$ 9,985	$ 21,410	$ 20,412

6. Other Balance Sheet Accounts

Prepaid Expenses and Other Current Assets

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

	As of	
	July 31, 2016	January 31, 2016
Prepaid income taxes	$ 23,504	$ 22,044
Customer contract asset	225,004	1,423
Other taxes receivable	28,749	27,341
Prepaid expenses and other current assets	266,595	199,786
	$ 543,852	$ 250,594

Customer contract asset reflects future billings of amounts that are contractually committed by SteelBrick's and Demandware's existing customers as of their respective acquisition dates and that will be billed in the next 12 months. As the Company bills these customers this balance will decrease and accounts receivable will increase.

Capitalized Software, net

Capitalized software consisted of the following (in thousands):

	As of	
	July 31, 2016	January 31, 2016
Capitalized internal-use software development costs, net of accumulated amortization of $217,206 and $186,251, respectively	$ 133,388	$ 123,065
Acquired developed technology, net of accumulated amortization of $532,505 and $481,118, respectively	492,826	261,193
	$ 626,214	$ 384,258

Capitalized internal-use software amortization expense totaled $15.9 million and $12.2 million for the three months ended July 31, 2016 and 2015 , respectively and totaled $30.9 million and $23.5 million for the six months ended July 31, 2016 and 2015 , respectively. Acquired developed technology amortization expense totaled $27.4 million and $22.5 million for the three months ended July 31, 2016 and 2015 , respectively and totaled $51.4 million and $44.4 million for the six months ended July 31, 2016 and 2015 , respectively.

The Company capitalized $1.6 million and $1.5 million of stock-based expenses related to capitalized internal-use software development during the three months ended July 31, 2016 and 2015 , respectively, and totaled $3.4 million and $3.1 million for the six months ended July 31, 2016 and 2015 , respectively.

Goodwill

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

Goodwill consisted of the following (in thousands):

Balance as of January 31, 2016	$ 3,849,937
SteelBrick	217,986
MetaMind	31,242
Demandware	1,884,886
Other business combinations	45,907
Finalization of acquisition date fair values	(63)
Balance as of July 31, 2016	$ 6,029,895

Other Assets, net

Other assets consisted of the following (in thousands):

	As of	
	July 31, 2016	January 31, 2016
Deferred income taxes, noncurrent, net	$ 22,545	$ 15,986
Long-term deposits	27,426	19,469
Purchased intangible assets, net of accumulated amortization of $252,877 and $212,248, respectively	803,076	258,580
Acquired intellectual property, net of accumulated amortization of $25,718 and $22,439, respectively	9,839	10,565
Customer contract asset, noncurrent (2)	496,461	93
Other (1)	96,450	66,217
	$ 1,455,797	$ 370,910

(1) In April 2015, the FASB issued ASU 2015-03 which simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability rather than an asset that is amortized. The Company retrospectively adopted this standard for the prior period presented, which resulted in a decrease in the carrying value of $7.9 million to Other as of January 31, 2016.
(2) Customer contract asset reflects future billings of amounts that are contractually committed by SteelBrick's and Demandware's existing customers as of the respective acquisition dates and that will be billed over a period of 72 months. As the Company bills these customers this balance will decrease and accounts receivable will increase.

Purchased intangible assets amortization expense for the three months ended July 31, 2016 and 2015 was $24.1 million and $20.7 million , respectively and for the six months ended July 31, 2016 and 2015 was $40.6 million and $40.7 million , respectively. Acquired intellectual property amortization expense for the three months ended July 31, 2016 and 2015 was $1.6 million and $1.7 million , respectively and for the six months ended July 31, 2016 and 2015 was $3.3 million and $3.4 million , respectively.

Accounts Payable, Accrued Expenses and Other Liabilities

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

	As of	
	July 31, 2016	January 31, 2016
Accounts payable	$ 101,404	$ 71,481
Accrued compensation	469,009	554,502
Non-cash equity liability (1)	76,043	0
Accrued other liabilities	520,854	447,729
Accrued income and other taxes payable	205,737	205,781
Accrued professional costs	33,717	33,814
Customer contract liability, current (2)	124,775	6,558
Accrued rent	16,966	14,071
Financing obligation - leased facility, current (3)	19,391	15,402
	$ 1,567,896	$ 1,349,338

Other Noncurrent Liabilities

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

	As of	
	July 31, 2016	January 31, 2016
Deferred income taxes and income taxes payable	$ 89,053	$ 85,996
Customer contract liability, noncurrent (2)	272,608	66
Financing obligation - leased facility (3)	201,779	196,711
Long-term lease liabilities and other	496,912	550,292
	$ 1,060,352	$ 833,065

(1) Non-cash equity liability represents the purchase price of shares issued to non-executive employees, as to 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. The Company expects this liability will be relieved within a year or earlier as the shares are subsequently sold.
(2) Customer contract liability reflects the legal obligation to provide future services that are contractually committed to SteelBrick's and Demandware's existing customers but unbilled as of their respective acquisition dates. As these services are invoiced, this balance will decrease and deferred revenue will increase.
(3) As of January 31, 2016, 350 Mission was in construction. In March 2016, construction was completed on the building. See Note 3 “Property and Equipment” for further discussion.

7. Stockholders' Equity

The Company maintains the following stock plans: the ESPP, the 2013 Equity Incentive Plan and the 2014 Inducement Equity Incentive Plan (the "2014 Inducement Plan"). The expiration of the 1999 Stock Option Plan ("1999 Plan") in fiscal 2010 did not affect awards outstanding, which continue to be governed by the terms and conditions of the 1999 Plan.

As of July 31, 2016 , $41.5 million has been 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 1, 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.

During fiscal 2016, the Company granted a performance-based restricted stock unit award to the Chairman of the Board and Chief Executive Officer 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, as it relates to the performance condition, these performance-based restricted stock units will vest simultaneously.

Stock activity excluding the ESPP is as follows:

		Options Outstanding		
	Shares Available for Grant	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2016	46,879,908	26,258,798	$ 56.26	
Increase in shares authorized:				
2013 Equity Incentive Plan	135,013			
2014 Inducement Plan	1,013,581			
Assumed equity plans	2,457,103			
Options granted under all plans	(1,565,806)	1,565,806	55.38	
Restricted stock activity	(5,200,112)			
Stock grants to board and advisory board members	(98,689)			
Exercised	0	(3,117,908)	38.70	
Plan shares expired	(59,756)			
Canceled	436,380	(436,380)	65.36	
Balance as of July 31, 2016	43,997,622	24,270,316	$ 58.30	$ 570,515
Vested or expected to vest		22,438,870	$ 57.32	$ 549,383
Exercisable as of July 31, 2016		9,407,899	$ 45.43	$ 342,144

The total intrinsic value of the options exercised during the six months ended July 31, 2016 and 2015 was $124.8 million and $198.2 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 4.7 years.

As of July 31, 2016 , options to purchase 9,407,899 shares were vested at a weighted average exercise price of $45.43 per share and had a remaining weighted-average contractual life of approximately 3.4 years. The total intrinsic value of these vested options as of July 31, 2016 was $342.1 million .

The following table summarizes information about stock options outstanding as of July 31, 2016 :

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)		Weighted-Average Exercise Price	Number of Shares		Weighted-Average Exercise Price
$0.86 to $39.09	5,009,819	2.1	$	31.52	4,222,980	$	32.46
$40.19 to $52.28	417,295	3.8		43.83	200,068		43.62
$52.30	3,558,218	4.3		52.30	2,177,833		52.30
$53.60 to $58.86	1,133,703	5.0		55.51	328,767		55.83
$59.34	5,922,503	5.3		59.34	2,227,005		59.34
$59.37 to $80.62	2,579,717	6.1		69.98	251,246		68.56
$80.99 to $82.55	5,649,061	6.3		81.02	0		0.00
	24,270,316	4.8	$	58.30	9,407,899	$	45.43

Restricted stock activity is as follows:

	Restricted Stock Outstanding				
	Outstanding		Weighted-Average Exercise Price		Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2016	21,294,585	$	0.001		
Granted- restricted stock units and awards	4,343,446		0.001		
Canceled	(952,325)		0.001		
Vested and converted to shares	(3,528,045)		0.001		
Balance as of July 31, 2016	21,157,661	$	0.001	$	1,730,697
Expected to vest	18,103,499			$	1,480,866

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 4 years.

The weighted-average grant date fair value of the restricted stock issued for the six months ended July 31, 2016 and 2015 was $75.86 and $70.73 , respectively.

Common Stock

The following number of shares of common stock were reserved and available for future issuance at July 31, 2016 :

Options outstanding	24,270,316
Restricted stock awards and units and performance stock units outstanding	21,157,661
Stock available for future grant:	
2013 Equity Incentive Plan	42,446,150
2014 Inducement Plan	1,465,329
Amended and Restated 2004 Employee Stock Purchase Plan	5,289,597
Acquired equity plans	86,143
Convertible Senior Notes	17,308,880
Warrants	17,308,880
	129,332,956

8. Income Taxes

Effective Tax Rate

The Company computes its year-to-date provision for income taxes by applying the estimated annual effective tax rate to year to date pretax income or loss and adjusts the provision for discrete tax items recorded in the period. For the six months ended July 31, 2016 , the Company reported a tax benefit of $206.9 million on a pretax income of $61.4 million , which resulted in a negative effective tax rate of 337 percent . The most significant component of this tax amount was the discrete tax benefit of $265.7 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 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 of the United States.

The Company regularly assesses the realizability of the deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some or all of the Company's 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. Generally, more weight is given to objectively verifiable evidence, such as the cumulative loss in recent years. The Company adjusts its valuation allowance in the event sufficient positive evidence overcomes the negative evidence of losses in recent years, for example, if the trend in increasing taxable income continues.

As described in Note 1 “Summary of Business and Significant Accounting Policies,” the Company early adopted ASU 2016-09 in the three months ended April 30, 2016. As a result of adopting ASU 2016-09 and the Company's current valuation allowance position, the Company did not record a current tax expense associated with the United States jurisdiction.

For the six months ended July 31, 2015 , the Company reported a tax provision of $21.8 million on a pretax income of $25.0 million , which resulted in an effective tax rate of 87 percent . The tax provision recorded was primarily related to income taxes in profitable jurisdictions outside the United States.

Tax Benefits Related to Stock-Based Compensation

The income tax benefit related to stock-based compensation was $103.8 million and $87.5 million for six months ended July 31, 2016 and 2015 , 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. Certain prior year tax returns are currently being examined by various taxing authorities in countries including the United States, France, and Switzerland. During the six months ended July 31, 2016, the Company effectively settled the uncertain tax positions subject to the audits in the United Kingdom and Canada, and as a result, the Company released the associated tax reserves.

The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. However, 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. Based on the information to-date, as some of the ongoing examinations are completed and tax positions in these tax years meet the conditions of being effectively settled or as applicable statute of limitations lapse, the Company anticipates it is reasonably possible that a decrease of unrecognized tax benefits up to approximately $5.5 million may occur in the next 12 months.

9. Earnings Per Share

Basic earnings/loss per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the fiscal period. Diluted earnings/loss 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 the three months ended July 31, 2015 is the same as basic loss per share as there is a net loss in the period and inclusion of potentially issuable shares is anti-dilutive.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240
Denominator:				
Weighted-average shares outstanding for basic earnings (loss) per share	681,126	659,366	678,929	656,636
Effect of dilutive securities:				
Convertible senior notes	2,977	0	1,961	728
Employee stock awards	11,865	0	10,824	14,867
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share	695,968	659,366	691,714	672,231

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):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Employee stock awards	7,414	23,637	8,263	8,652
Convertible senior notes	0	17,309	0	0
Warrants	17,309	17,309	17,309	17,309

10. Commitments

Letters of Credit

As of July 31, 2016 , the Company had a total of $83.9 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 July 31, 2016 , the future minimum lease payments under non-cancelable operating and capital leases are as follows (in thousands):

	Capital Leases	Operating Leases	Financing Obligation - Leased Facility(1)
Fiscal Period:			
Remaining six months of fiscal 2017	$ 37,433	$ 210,432	$ 10,565
Fiscal 2018	122,713	399,959	21,437
Fiscal 2019	115,794	350,317	21,881
Fiscal 2020	201,577	278,537	22,325
Fiscal 2021	36	252,082	22,770
Thereafter	0	1,401,711	233,927
Total minimum lease payments	477,553	$ 2,893,038	$ 332,905
Less: amount representing interest	(41,847)		
Present value of capital lease obligations	$ 435,706		

(1) Total Financing Obligation -Leased Facility noted above represents the total obligation on the lease agreement including amounts allocated to interest noted in Note 3 “Property and Equipment.” As of July 31, 2016 , $221.2 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 non-current 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 $2.9 billion , approximately $2.5 billion is related to facilities space. The remaining commitment amount is related to computer equipment and furniture and fixtures.

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 agreement provides that the Company will pay $35.0 million in the remainder of fiscal 2017, $96.0 million in fiscal 2018, $108.0 million in fiscal 2019 and $126.0 million in fiscal 2020.

11. 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.

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

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. 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 future results of operations or cash flows, or both, of a particular quarter.

12. 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 $1.7 million for the six months ended July 31, 2016 .

The resource sharing agreement was amended in August 2015 to include resources outside of the United States and is more explicit about the types of resources that the Company will provide.

Additionally, the Company has donated 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 revenue from subscriptions provided to non-profit organizations is donated back to the community through charitable grants made by the Foundation and Salesforce.org. The reseller agreement was amended in August 2015 to include additional customer segments and certain customers outside the U.S. and in October 2015 to add an addendum with model clauses for the processing of personal data transferred from the European Economic Area. The value of the subscriptions pursuant to reseller agreements was approximately $59.2 million for the six months ended July 31, 2016 . The Company plans to continue these programs.

As described in Note 4 “Business Combinations,” the Company's chairman held an ownership interest in an acquisition that was completed by the Company in April 2016.

13. Subsequent Events

In August 2016, the Company acquired the outstanding stock of Quip, Inc. ("Quip"), in exchange for the issuance of shares of common stock of the Company. 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 employees and product offerings. After taking into consideration customary purchase price adjustments, the total estimated consideration for Quip was approximately $410.0 million , consisting primarily of shares of common stock, not including shares subject to vesting conditions based on continued employment of certain recipients following closing of the acquisition. The acquisition closed on August 26, 2016.

In August 2016, the Company agreed to acquire the common stock of BeyondCore, Inc. ("BeyondCore"), in exchange for the issuance of shares of common stock of the Company. BeyondCore is a smart data discovery technology company that automatically explores millions of variable combinations from any structured data source. After taking into consideration customary purchase price adjustments, the total estimated consideration for BeyondCore is expected to be approximately $110.0 million , consisting primarily of shares of common stock, not including shares subject to vesting conditions based on continued employment of certain recipients following closing of the acquisition. The acquisition is expected to close during the fiscal quarter ended October 31, 2016.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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; our service performance and security; 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; new services and product features; our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; 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 ability to realize the benefits from strategic partnerships and investments; our reliance on third- party hardware, software and platform providers; the effect of evolving government regulations; the valuation of our deferred tax assets; the potential availability of additional tax assets in the future; 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; and current and potential litigation involving us. 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.

Overview

We are a leading provider of enterprise cloud computing solutions, with a focus on customer relationship management, or CRM. We introduced our first CRM solution in February 2000, and we have since expanded our service offerings with new editions, solutions, features and platform capabilities.

Our mission is to help our customers transform themselves into customer-centric companies by empowering them to connect with their customers in entirely new ways. Our Customer Success Platform includes among other things sales force automation, customer service and support, marketing automation, community management, analytics, application development, and Internet of Things ("IoT") integration and our professional cloud services, provides the next-generation platform of enterprise applications, or apps, and services to enable customer success.

We believe that the convergence of cloud, social, mobile, data science and IoT technologies is fundamentally transforming how companies sell, service, market and innovate to connect with their customers. With our service offerings —Sales Cloud, Service Cloud, Marketing Cloud, Commerce Cloud, Community Cloud, Analytics Cloud, IoT Cloud and App Cloud —customers have the tools they need to build a next generation customer success platform. Key elements of our strategy include:

- strengthening our market-leading solutions;
- expanding strategic relationships with customers;
- extending distribution into new and high-growth product categories;
- expanding our world-class sales organization;
- reducing customer attrition;
- building our business in top software markets globally, which includes building partnerships that help add customers; and

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

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

To address these factors, we will need to, among other things, continue to add substantial numbers of paying subscriptions, upgrade our customers to fully featured versions or arrangements such as an Enterprise License Agreement, provide high quality technical support to our customers, encourage the development of third-party applications on our platforms and continue to focus on retaining customers at the time of renewal. Our plans to invest for future growth include the continuation of the expansion of our data center capacity, the hiring of additional personnel, particularly in direct sales, other customer-related areas and research and development, the expansion of domestic and international selling and marketing activities, specifically in our top markets, continuing to develop our brands, the addition of distribution channels, the upgrade of our service offerings, the development of new services, the integration of acquired technologies, the expansion of our Marketing Cloud and App Cloud 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 a result of our aggressive growth plans, specifically our hiring plan and acquisition activities, we have incurred significant expenses from equity awards and amortization of purchased intangibles. As we continue with our growth plan and absent any one-time gains, we may continue to incur similar expenses in the future.

Our typical subscription contract term is 12 to 36 months, although terms range from one to 60 months, so during any fiscal reporting period only a subset of active subscription contracts is eligible for renewal. We calculate our attrition rate as of the end of each month. Our current attrition rate calculation does not include the Marketing Cloud service offerings. Our attrition rate was between eight and nine percent as of July 31, 2016 . 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 49 percent for the six months ended July 31, 2016 and 2015 , 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 build greater brand awareness.

In July 2016 we acquired Demandware, Inc. ("Demandware"), an industry-leading provider of enterprise cloud commerce solutions in the digital commerce market. We acquired Demandware to expand our position in customer relationship management and to pursue the digital commerce market segment with the new Salesforce Commerce Cloud. The financial results of Demandware are included in our consolidated financial statements from the date of acquisition. The total purchase price for Demandware was approximately $2.9 billion .

In July 2016, we entered into a credit agreement (the "Term Loan Credit Agreement") which provides for a $500.0 million term loan (the "Term Loan") that matures on July 11, 2019. All amounts borrowed under the Term Loan were used to pay a portion of the total purchase price for Demandware. Additionally, we entered into an Amended and Restated Credit Agreement (the " Revolving Loan Credit Agreement ") with Wells Fargo Bank, National Association, and certain other institutional lenders that increased our existing revolving credit facility dated October 2014 to $1.0 billion . As of July 31, 2016 , there were no borrowings under the revolving credit facility.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2017 , for example, refer to the fiscal year ending January 31, 2017 .

Operating Segments

We operate as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who in our case is the chief executive officer, in deciding how to allocate resources and assess performance. Over the past few years, we have completed several acquisitions. These acquisitions have allowed us to expand our offerings, presence and reach in various market segments of the enterprise cloud computing market. While we have offerings in multiple enterprise cloud computing market segments, our business operates in one operating segment because 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 the six months ended July 31, 2016 . 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 the six months ended July 31, 2016 and 2015 .

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 either a time and materials or fixed fee basis. We also offer a number of training classes on implementing, using and administering our service that are billed on a per person, per class basis. Our typical professional services payment terms provide that our customers pay us within 30 days of invoice.

In determining whether professional services can be accounted for separately from subscription and support revenues, we consider a number of factors, which are described in “Critical Accounting Estimates—Revenue Recognition” below.

Revenue by Cloud Service Offering

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

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

	Three Months Ended July 31,			Six Months Ended July 31,		
	2016	2015	Variance-Percent	2016	2015	Variance-Percent
Sales Cloud	$ 754.9	$ 671.0	13%	$ 1,479.5	$ 1,301.4	14%
Service Cloud	575.4	445.2	29%	1,115.5	852.9	31%
App Cloud and Other	353.4	247.2	43%	679.3	471.2	44%
Marketing Cloud	202.4	157.9	28%	387.3	301.1	29%
Total	$ 1,886.1	$ 1,521.3		$ 3,661.6	$ 2,926.6	

Subscription and support revenues from the Analytics Cloud, Community Cloud, IoT Cloud and Commerce Cloud were not significant for the three and six months ended July 31, 2016 . The IoT Cloud was launched in September 2015. Analytics Cloud revenue is included with App Cloud and Other in the table above. Community Cloud revenue is included in either Sales Cloud, Service Cloud or App Cloud and Other revenue depending on the primary service offering purchased. Commerce Cloud revenue, resulting from our Demandware acquisition in July 2016, is included in Marketing 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 13 percent of our total subscription and support revenues for the three and six months ended July 31, 2016 and 10 percent of our total subscription and support revenues for the three and six months ended July 31, 2015 , 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 App Cloud to record account and contact information, which are similar features across these core service offerings. Depending on a customer's actual and projected business requirements, more than one core service offering may satisfy the customer's current and future needs. We record revenue based on the individual products ordered by a customer, and not according to the customer's business requirements and usage. In addition, as we introduce new features and functions within each offering, and refine our allocation methodology for changes in our business, we do not expect it to be practical to adjust historical revenue results by service offering for comparability. Accordingly, comparisons of revenue performance by core service offering over time may not be meaningful.

Our Sales Cloud service offering is our most widely distributed service offering and has historically been the largest contributor of subscription and support revenues. As a result, Sales Cloud has the most international exposure and foreign exchange rate exposure, relative to the other cloud service offerings. Conversely, revenue for Marketing Cloud is primarily derived from the Americas, with little impact from foreign exchange rate movement.

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 were issued with annual terms during the three months ended July 31, 2016 in comparison to 74 percent during the same period a year ago. Occasionally, we bill customers for their multi-year contract on a single invoice which results in an increase in noncurrent deferred revenue. We typically issue renewal invoices in advance of the renewal service period, and depending on timing, the initial invoice for the subscription and services contract and the subsequent renewal invoice may occur in different quarters. This may result in an increase in deferred revenue and accounts receivable. There is a disproportionate weighting towards annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Our fourth quarter has historically been our strongest quarter for new business and renewals. The year on year compounding effect of this seasonality in both billing patterns and overall new and renewal business causes the value of invoices that we generate in the fourth quarter for both new business and renewals to increase as a proportion of our total annual billings. Accordingly, because of this billing activity, our first quarter is our largest collections and operating cash flow quarter.

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):

	April 30, 2016	July 31, 2016
Fiscal 2017		
Accounts receivable, net	$ 1,192,965	$ 1,323,114
Deferred revenue, current and noncurrent	4,006,914	3,823,561
Operating cash flow (1)	1,051,062	250,678
Unbilled deferred revenue (2)	7.6 bn	8.0 bn

	April 30, 2015	July 31, 2015	October 31, 2015	January 31, 2016
Fiscal 2016				
Accounts receivable, net	$ 926,381	$ 1,067,799	$ 1,060,726	$ 2,496,165
Deferred revenue, current and noncurrent	3,056,820	3,034,991	2,846,510	4,291,553
Operating cash flow (1)	735,081	304,278	162,514	470,208
Unbilled deferred revenue	6.0 bn	6.2 bn	6.7 bn	7.1 bn

	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015
Fiscal 2015				
Accounts receivable, net	$ 684,155	$ 834,323	$ 794,590	$ 1,905,506
Deferred revenue, current and noncurrent	2,324,615	2,352,904	2,223,977	3,321,449
Operating cash flow (1)	482,128	239,078	123,732	336,506
Unbilled deferred revenue	4.8 bn	5.0 bn	5.4 bn	5.7 bn

(1) Operating cash flow represents net cash provided by operating activities for the three months ended in the periods stated above. In the first quarter of fiscal year 2017, we adopted Accounting Standards Update No. 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting" ("ASU 2016-09"), which addresses among other items, updates to the presentation and treatment of excess tax benefits related to stock based compensation on the Statements of Cash Flows. We have adopted changes to the statement of cash flows on a retrospective basis and have accordingly updated the operating cash flow amounts presented above.

(2) 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. As of July 31, 2016, $300.0 million of the balance presented relates to Demandware, Inc.

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 above. Our typical contract length is between 12 and 36 months. We expect that the amount of unbilled deferred revenue will change from quarter to quarter for several reasons, including the specific timing, duration and size of large customer subscription agreements, varying billing cycles of subscription agreements, the specific timing of customer renewals, foreign currency fluctuations, the timing of when unbilled deferred revenue is to be recognized as revenue, and changes in customer financial circumstances. For multi-year subscription agreements billed annually, the associated unbilled deferred revenue is typically high at the beginning of the contract period, zero just prior to renewal, and increases if the agreement is renewed. Low unbilled deferred revenue attributable to a particular subscription agreement is often associated with an impending renewal and may not be an indicator of the likelihood of renewal or future revenue from such customer. Accordingly, we expect that the amount of aggregate unbilled deferred revenue will change from year-to-year depending in part upon the number and dollar amount of subscription agreements at particular stages in their renewal cycle. Such fluctuations are not a reliable indicator of future revenues. Unbilled deferred revenue does not include minimum revenue commitments from indirect sales channels, as we recognize revenue, deferred revenue, and any unbilled deferred revenue upon sell-through to an end user customer.

Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of subscription and support revenues primarily consists of expenses related to 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 information technology infrastructure, rent and occupancy charges based on headcount. Employee benefit costs and taxes are allocated based upon a percentage of total compensation expense. As such, general overhead expenses are reflected in each cost of revenue and operating expense category. Cost of professional services and other revenues consists primarily of employee-related costs associated with these services, including stock-based expenses, the cost of subcontractors, certain third party fees and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenue than for our enterprise cloud computing subscription service due to the direct labor costs and costs of subcontractors.

We intend to continue to invest additional resources in our enterprise cloud computing services. For example, we have invested in additional database software and we plan to 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 amortization expense associated with this activity will be included in cost of revenues. Additionally, as we enter into new contracts with third parties for the use of their technology, services or data, or as our sales volume grows, the fees paid to use such technology or services may increase. The timing of these additional expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in the affected periods.

Research and Development . Research and development expenses consist primarily of salaries and related expenses, including stock-based expenses, the costs of our development and test data center and allocated overhead. We continue to focus our research and development efforts on adding new features and services, integrating acquired technologies, increasing the functionality and security and enhancing the ease of use of our enterprise cloud computing services. Our proprietary, scalable and secure multi-tenant architecture enables us to provide all of our customers with a service based on a single version of our application. As a result, we do not have to maintain multiple versions, which enables us to have relatively lower research and development expenses as compared to traditional enterprise software companies.

We expect that in the future, research and development expenses will increase in absolute dollars and may increase as a percentage of total revenues as we invest in building the necessary employee and system infrastructure required to support the development of new, and improve existing, technologies and the integration of acquired businesses and technologies.

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

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

General and Administrative. General and administrative expenses consist of salaries and related expenses, including stock-based expenses, for finance and accounting, legal, internal audit, human resources and management information systems personnel, legal costs, professional fees, other corporate expenses and allocated overhead. We expect that in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee related costs, professional fees and insurance costs related to the growth of our business and international expansion. We expect general and administrative costs as a percentage of total revenues to either remain flat or decrease for the next several quarters. 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 statement of operations based on their fair values and vesting periods. These charges have been significant in the past and we expect that they will increase as our stock price increases, as we acquire more companies, as we hire more employees and seek to retain existing employees.

During the six months ended July 31, 2016 , we recognized stock-based expense of $371.2 million . As of July 31, 2016 , the aggregate stock compensation remaining to be amortized to costs and expenses was $1.7 billion . We expect this stock compensation balance to be amortized as follows: $371.5 million during the remaining six months of fiscal 2017 ; $602.1 million during fiscal 2018 ; $436.6 million during fiscal 2019 ; $227.4 million during fiscal 2020 and $17.6 million during fiscal 2021 . The expected amortization reflects only outstanding stock awards as of July 31, 2016 and assumes no forfeiture activity. We expect to continue to issue stock-based awards to our employees in future periods.

Amortization of Purchased Intangibles from Business Combinations and the Purchase of 50 Fremont . Our cost of revenues, operating expenses and other expense include amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts, trade names, customer lists, acquired leases and customer relationships. We expect this expense to increase as we acquire more businesses.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in the Notes to the accompanying consolidated financial statements, the following accounting estimates involve a greater degree of judgment and complexity. Accordingly, these are the estimates 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 material or fixed fee basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized after the services are performed.

Multiple Deliverable Arrangements

We enter into arrangements with multiple deliverables that generally include multiple subscriptions, premium support, and professional services. If the deliverables have standalone value upon delivery, we account for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer's satisfaction with the professional services work. To date, we have concluded that all of the professional services included in multiple deliverable arrangements executed have standalone value.

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

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

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

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

During the six months ended July 31, 2016 , we deferred $134.2 million of commission expenditures and we amortized $177.3 million to sales expense. During the same period a year ago, we deferred $120.8 million of commission expenditures and we amortized $153.8 million to sales expense. Deferred commissions on our consolidated balance sheets totaled $406.0 million at July 31, 2016 and $449.1 million at January 31, 2016 .

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.

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 net 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 relationships, 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 enter into a business combination with an entity in which we previously held a strategic investment, significant gains or losses are 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. At each of the interim financial reporting periods, we compute our tax provision by applying an estimated annual effective tax rate to year to date ordinary income or loss and adjust the provision for discrete tax items recorded in the same period. The estimated annual effective tax rate at each interim period represents our best estimate based on evaluations of possible future transactions and may be subject to subsequent refinement or revision.

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

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.

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 are measured using quoted prices in their respective active markets and non-marketable debt and equity securities are recorded at cost and presented in the consolidated balance sheet. 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 requirements of ASC 323 to account 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 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):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Revenues:				
Subscription and support	$ 1,886,080	$ 1,521,319	$ 3,661,573	$ 2,926,606
Professional services and other	150,538	113,365	291,648	219,245
Total revenues	2,036,618	1,634,684	3,953,221	3,145,851
Cost of revenues (1)(2):				
Subscription and support	360,943	292,737	696,771	566,978
Professional services and other	164,636	112,647	325,789	220,208
Total cost of revenues	525,579	405,384	1,022,560	787,186
Gross profit	1,511,039	1,229,300	2,930,661	2,358,665
Operating expenses (1)(2):				
Research and development	291,506	234,100	552,476	456,228
Marketing and sales	934,931	793,691	1,830,791	1,530,629
General and administrative	252,051	181,685	462,857	357,496
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(36,617)
Total operating expenses	1,478,488	1,209,476	2,846,124	2,307,736
Income from operations	32,551	19,824	84,537	50,929
Investment income	11,916	3,283	20,038	7,844
Interest expense	(20,708)	(18,096)	(42,719)	(34,771)
Other income (expense) (1)	524	1,947	(13,282)	1,029
Gains on sales of strategic investments	0	0	12,864	0
Income before benefit from (provision for) income taxes	24,283	6,958	61,438	25,031
Benefit from (provision for) income taxes (3)	205,339	(7,810)	206,943	(21,791)
Net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Cost of revenues	$ 25,544	$ 20,839	$ 47,759	$ 40,529
Marketing and sales	23,151	19,002	38,537	39,029
Other non-operating expense	642	1,301	1,348	2,116

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Cost of revenues	$ 23,495	$ 16,340	$ 50,129	$ 31,721
Research and development	38,624	33,732	73,792	64,974
Marketing and sales	86,323	71,724	181,797	142,258
General and administrative	33,868	25,983	65,511	51,386

(3) Amounts include a $265.7 million tax benefit recorded during the three months ended July 31, 2016 as a result of the partial release of the valuation allowance related to the Demandware, Inc. acquisition. See Note 8 “Income Taxes.”

Revenues by geography were as follows (in thousands):

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Americas	$ 1,495,201	$ 1,202,173	$ 2,908,430	$ 2,317,293
Europe	347,320	286,904	675,174	545,709
Asia Pacific	194,097	145,607	369,617	282,849
	$ 2,036,618	$ 1,634,684	$ 3,953,221	$ 3,145,851

Americas revenue attributed to the United States was approximately 96 percent and 95 percent during the three months ended July 31, 2016 and 2015 , respectively, and was approximately 96 percent and 95 percent for the six months ended July 31, 2016 and 2015 , respectively.

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

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Revenues:				
Subscription and support	93 %	93 %	93 %	93 %
Professional services and other	7	7	7	7
Total revenues	100	100	100	100
Cost of revenues (1)(2):				
Subscription and support	18	18	18	18
Professional services and other	8	7	8	7
Total cost of revenues	26	25	26	25
Gross profit	74	75	74	75
Operating expenses (1)(2):				
Research and development	14	14	14	14
Marketing and sales	46	49	46	49
General and administrative	12	11	12	11
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(1)
Total operating expenses	72	74	72	73
Income from operations	2	1	2	2
Investment income	0	0	1	0
Interest expense	(1)	(1)	(1)	(1)
Other income (expense) (1)	0	0	0	0
Gains on sales of strategic investments	0	0	0	0
Income before benefit from (provision for) income taxes	1	0	2	1
Benefit from (provision for) income taxes	10	0	5	(1)
Net income (loss)	11 %	0 %	7 %	0 %

(1) Amortization of purchased intangibles from business combinations as a percentage of total revenues, as follows:

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015
Cost of revenues	1%	1%	1%	1%
Marketing and sales	1	1	1	1
Other non-operating expense	0	0	0	0

(2) Stock-based expense as a percentage of total revenues, as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Cost of revenues	1%	1%	1%	1%
Research and development	2	2	2	2
Marketing and sales	4	4	5	4
General and administrative	2	2	1	2

Revenues by geography as a percentage of total revenues, as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Americas	73%	74%	74%	74%
Europe	17	17	17	17
Asia Pacific	10	9	9	9
	100%	100%	100%	100%

Revenues and deferred revenue in constant currency, as follows:

Revenue constant currency growth rates (as compared to the comparable prior periods)	**Three Months Ended July 31, 2016 compared to Three Months Ended July 31, 2015**	**Three Months Ended July 31, 2015 compared to Three Months Ended July 31, 2014**
Americas	24%	28%
Europe	32%	29%
Asia Pacific	29%	25%
Total growth	26%	28%

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

	July 31, 2016 compared to July 31, 2015	**January 31, 2016 compared to January 31, 2015**
Deferred revenue, current and noncurrent constant currency growth rates (as compared to the comparable prior periods)		
Total growth	27%	31%

To present the information above, we convert the deferred revenue balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as of the most recent balance sheet date.

Three Months Ended July 31, 2016 and 2015

Revenues.

	Three Months Ended July 31,		Variance	
(in thousands)	**2016**	**2015**	**Dollars**	**Percent**
Subscription and support	$ 1,886,080	$ 1,521,319	$ 364,761	24%
Professional services and other	150,538	113,365	37,173	33%
Total revenues	$ 2,036,618	$ 1,634,684	$ 401,934	25%

Total revenues were $2.0 billion for the three months ended July 31, 2016 , compared to $1.6 billion during the same period a year ago, an increase of $0.4 billion , or 25 percent . Subscription and support revenues were $1.9 billion , or 93 percent of total revenues, for the three months ended July 31, 2016 , compared to $1.5 billion , or 93 percent of total revenues, during the same period a year ago, an increase of $0.4 billion , or 24 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. 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. Our attrition rate also played a role in the increase in 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 $150.5 million , or seven percent of total revenues, for the three months ended July 31, 2016 , compared to $113.4 million , or seven percent of total revenues, for the same period a year ago, an increase of $37.2 million or 33 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 from acquired businesses in fiscal 2017 were not material.

Revenues in Europe and Asia Pacific accounted for $541.4 million , or 27 percent of total revenues, for the three months ended July 31, 2016 , compared to $432.5 million , or 26 percent of total revenues, during the same period a year ago, an increase of $108.9 million , or 25 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 in the three months ended July 31, 2016 despite an overall strengthening of the U.S. dollar. This resulted in a reduction in aggregate international revenues by $23.7 million compared to the same period a year ago.

Cost of Revenues.

	Three Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Subscription and support	$ 360,943	$ 292,737	$ 68,206
Professional services and other	164,636	112,647	51,989
Total cost of revenues	$ 525,579	$ 405,384	$ 120,195
Percent of total revenues	26%	25%	

Cost of revenues was $525.6 million , or 26 percent of total revenues, for the three months ended July 31, 2016 , compared to $405.4 million , or 25 percent of total revenues, during the same period a year ago, an increase of $120.2 million . The increase in absolute dollars was primarily due to an increase of $65.3 million in employee-related costs, an increase of $7.2 million in stock-based expenses, an increase of $26.5 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of $6.1 million in professional and outside services and third party expenses, an increase of amortization of purchased intangible assets of $4.7 million and an increase of $6.1 million in allocated overhead. We have increased our headcount by 48 percent since July 31, 2015 to meet the higher demand for services from our customers, of which a component is due to the acquisition of Demandware on July 11, 2016. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity. 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 higher than the related revenue during the three months ended July 31, 2016 by $14.1 million as compared to lower than the related revenue by $0.7 million during the same period a year ago. We expect the cost of professional services to continue to be more than revenue from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Research and Development.

	Three Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Research and development	$ 291,506	$ 234,100	$ 57,406
Percent of total revenues	14%	14%	

Research and development expenses were $291.5 million , or 14 percent of total revenues, for the three months ended July 31, 2016 , compared to $234.1 million , or 14 percent of total revenues, during the same period a year ago, an increase of $57.4 million . The increase in absolute dollars was primarily due to an increase of approximately $45.3 million in employee-related costs, an increase of $4.9 million in stock-based expenses, an increase of $6.2 million in our development and test data center costs, and increases in allocated overhead. We increased our research and development headcount by 33 percent since July 31, 2015 in order to improve and extend our service offerings and develop new technologies, a component of which is due to the acquisition of Demandware on July 11, 2016. 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.

	Three Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Marketing and sales	$ 934,931	$ 793,691	$ 141,240
Percent of total revenues	46%	49%	

Marketing and sales expenses were $934.9 million , or 46 percent of total revenues, for the three months ended July 31, 2016 , compared to $793.7 million , or 49 percent of total revenues, during the same period a year ago, an increase of $141.2 million . The change was primarily due to an increase of $121.7 million in employee-related costs and amortization of deferred commissions, an increase of $14.6 million in stock-based expenses and allocated overhead and an increase of $4.1 million related to the amortization of purchased intangible assets and increases in allocated overhead. Our marketing and sales headcount increased by 27 percent since July 31, 2015 ; a component was also due to the acquisition of Demandware on July 11, 2016. 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.

	Three Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
General and administrative	$ 252,051	$ 181,685	$ 70,366
Percent of total revenues	12%	11%	

General and administrative expenses were $252.1 million , or 12 percent of total revenues, for the three months ended July 31, 2016 , compared to $181.7 million , or 11 percent of total revenues, during the same period a year ago, an increase of $70.4 million . The increase was primarily due to an increase of $43.2 million in employee-related costs and an increase of $7.9 million in stock-based expenses. Additionally, we incurred $15.5 million in transaction costs associated with our acquisition of Demandware. Our general and administrative headcount increased by 26 percent since July 31, 2015 , a component of which is due to the acquisition of Demandware on July 11, 2016, with additional personnel added to support our growth.

Income from operations.

	Three Months Ended July 31,		Variance
(in thousands)	2016	2015	Dollars
Income from operations	$ 32,551	$ 19,824	$ 12,727
Percent of total revenues	2%	1%	

Income from operations for the three months ended July 31, 2016 was $32.6 million and included $182.3 million of stock-based expenses, $15.5 million of transaction costs associated with our acquisition of Demandware and $48.7 million of amortization of purchased intangibles. During the same period a year ago, income from operations was $19.8 million and included $147.8 million of stock-based expenses and $39.8 million of amortization of purchased intangibles. The increase in income from operations is primarily due to a higher revenue growth rate compared to costs and operating expense growth rates.

Investment income.

	Three Months Ended July 31,		Variance
(in thousands)	2016	2015	Dollars
Investment income	$ 11,916	$ 3,283	$ 8,633

Investment income consists of income on our cash and marketable securities balances. Investment income was $11.9 million for the three months ended July 31, 2016 and was $3.3 million during the same period a year ago. 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.

	Three Months Ended July 31,		Variance
(in thousands)	2016	2015	Dollars
Interest expense	$ (20,708)	$ (18,096)	$ (2,612)
Percent of total revenues	(1)%	(1)%	

Interest expense consists of interest on our convertible senior notes, capital leases, financing obligation related to 350 Mission, 50 Fremont mortgage and the $500.0 million term loan that was entered into in connection with our acquisition of Demandware. Interest expense was $20.7 million for the three months ended July 31, 2016 and was $18.1 million during the same period a year ago.

Other income.

	Three Months Ended July 31,		Variance
(in thousands)	2016	2015	Dollars
Other income	$ 524	$ 1,947	$ (1,423)

Other income 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.

Benefit from (provision for) income taxes.

	Three Months Ended July 31,		Variance
(in thousands)	2016	2015	Dollars
Benefit from (provision for) income taxes	$ 205,339	$ (7,810)	$ 213,149
Effective tax rate	(846)%	112%	

We recognized a tax benefit of $205.3 million on a pretax income of $24.3 million , which resulted in a negative effective tax rate of 846 percent for the three months ended July 31, 2016 . The most significant component of this tax amount was the discrete tax benefit of $265.7 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 pre-existing 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. Additionally, as a result of early adopting ASU 2016-09 and our valuation allowance position, we did not record any U.S. current income tax expense.

We regularly assess the realizability of our deferred tax assets and establish a valuation allowance if it is more-likely-than-not that some or all of our deferred tax assets will not be realized. We evaluate and weigh 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. Generally, more weight is given to objectively verifiable evidence, such as the cumulative loss in recent years. We will adjust our valuation allowance in the event sufficient positive evidence overcomes the negative evidence of losses in recent years, for example, if our trend in increasing taxable income continues. Due to our valuation allowance, the effective tax rate could be volatile and is therefore difficult to forecast in future periods.

We recorded a tax provision of $7.8 million with a pretax income of $7.0 million, which resulted in an effective tax rate of 112 percent for the three months ended July 31, 2015 . The tax provision recorded was primarily due to income taxes in profitable jurisdictions outside the United States.

Six Months Ended July 31, 2016 and 2015

Revenues.

	Six Months Ended July 31,		Variance	
(in thousands)	2016	2015	Dollars	Percent
Subscription and support	$ 3,661,573	$ 2,926,606	$ 734,967	25%
Professional services and other	291,648	219,245	72,403	33%
Total revenues	$ 3,953,221	$ 3,145,851	$ 807,370	26%

Total revenues were $4.0 billion for the six months ended July 31, 2016 , compared to $3.1 billion during the same period a year ago, an increase of $0.8 billion , or 26 percent . Subscription and support revenues were $3.7 billion , or 93 percent of total revenues, for the six months ended July 31, 2016 , compared to $2.9 billion , or 93 percent of total revenues, during the same period a year ago, an increase of $735.0 million , 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. Further, subscription revenues benefited due to an additional day in the six months ended July 31, 2016 compared to the six months ended July 31, 2015. 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. Our attrition rate also played a role in the increase in 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 $291.6 million , or seven percent of total revenues, for the six months ended July 31, 2016 , compared to $219.2 million , or seven percent of total revenues, for the same period a year ago, an increase of $72.4 million , or 33 percent . The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of customers.

Revenues in Europe and Asia Pacific accounted for $1.0 billion , or 26 percent of total revenues, for the six months ended July 31, 2016 , compared to $828.6 million , or 26 percent of total revenues, during the same period a year ago, an increase of $216.2 million , or 26 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 in the six months ended July 31, 2016 despite an overall strengthening of the U.S. dollar. This resulted in a reduction in aggregate international revenues by $42.4 million compared to the same period a year ago.

Cost of Revenues.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Subscription and support	$ 696,771	$ 566,978	$ 129,793
Professional services and other	325,789	220,208	105,581
Total cost of revenues	$ 1,022,560	$ 787,186	$ 235,374
Percent of total revenues	26%	25%	

Cost of revenues was $1.0 billion , or 26 percent of total revenues, for the six months ended July 31, 2016 , compared to $787.2 million , or 25 percent of total revenues, during the same period a year ago, an increase of $235.4 million . The increase in absolute dollars was primarily due to an increase of $114.2 million in employee-related costs, an increase of $18.4 million in stock-based expenses, an increase of $58.4 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of $14.3 million in professional and outside services and third party expenses, an increase of amortization of purchased intangible assets of $7.2 million and an increase of $11.7 million in allocated overhead. We have increased our headcount by 48 percent since July 31, 2015 to meet the higher demand for services from our customers, of which a component is due to the acquisition of Demandware on July 11, 2016. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity. 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 higher than the related revenue during the six months ended July 31, 2016 by $34.1 million as compared to $1.0 million during the same period a year ago. We expect the cost of professional services to continue to be more than revenue from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Research and Development.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Research and development	$ 552,476	$ 456,228	$ 96,248
Percent of total revenues	14%	14%	

Research and development expenses were $552.5 million , or 14 percent of total revenues, for the six months ended July 31, 2016 , compared to $456.2 million , or 14 percent of total revenues, during the same period a year ago, an increase of $96.2 million . The increase in absolute dollars was primarily due to an increase of approximately $74.4 million in employee-related costs, an increase of $8.8 million in stock-based expenses, an increase of $12.1 million in our development and test data center costs, and increases in allocated overhead. We increased our research and development headcount by 33 percent since July 31, 2015 in order to improve and extend our service offerings and develop new technologies, a component of which is due to the acquisition of Demandware on July 11, 2016. 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.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Marketing and sales	$ 1,830,791	$ 1,530,629	$ 300,162
Percent of total revenues	46%	49%	

Marketing and sales expenses were $1.8 billion , or 46 percent of total revenues, for the six months ended July 31, 2016 , compared to $1.5 billion , or 49 percent of total revenues, during the same period a year ago, an increase of $300.2 million . The change was primarily due to an increase of $230.4 million in employee-related costs and amortization of deferred commissions, an increase of $39.5 million in stock-based expenses, an increase of $17.1 million in advertising expenses and allocated overhead. Our marketing and sales headcount increased by 27 percent since July 31, 2015 . 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; a component was also due to the acquisition of Demandware on July 11, 2016.

General and Administrative.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
General and administrative	$ 462,857	$ 357,496	$ 105,361
Percent of total revenues	12%	11%	

General and administrative expenses were $462.9 million , or 12 percent of total revenues, for the six months ended July 31, 2016 , compared to $357.5 million , or 11 percent of total revenues, during the same period a year ago, an increase of $105.4 million . The increase was primarily due to an increase of $69.0 million in employee-related costs and an increase of $14.1 million in stock-based expenses. Additionally we incurred $15.5 million in acquisition costs associated with our acquisition of Demandware on July 11, 2016. Our general and administrative headcount increased by 26 percent since July 31, 2015 , a component of which is due to the acquisition of Demandware on July 11, 2016, with additional personnel added to support our growth.

Operating lease termination resulting from purchase of 50 Fremont.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Operating lease termination resulting from purchase of 50 Fremont	$ 0	$ (36,617)	$ 36,617
Percent of total revenues	0%	(1)%	

Operating lease termination resulting from purchase of 50 Fremont for the six months ended July 31, 2015 was $36.6 million . In connection with the February 2015 purchase, we recognized a net non-cash gain totaling approximately $36.6 million on the termination of our office lease signed in January 2012.

Income from operations.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Income from operations	$ 84,537	$ 50,929	$ 33,608
Percent of total revenues	2%	2%	

Income from operations for the six months ended July 31, 2016 was $84.5 million and included $371.2 million of stock-based expenses, $15.5 million of transaction costs associated with our acquisition of Demandware and $86.3 million of amortization of purchased intangibles. During the same period a year ago, income from operations was $50.9 million and included a gain of $36.6 million related to the purchase of 50 Fremont, $290.3 million of stock-based expenses and $79.6 million of amortization of purchased intangibles. The increase in income from operations is primarily due to a higher revenue growth rate compared to costs and operating expense growth rates.

Investment income.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Investment income	$ 20,038	$ 7,844	$ 12,194
Percent of total revenues	1%	0%	

Investment income consists of income on our cash and marketable securities balances. Investment income was $20.0 million for the six months ended July 31, 2016 and was $7.8 million during the same period a year ago. 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.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Interest expense	$ (42,719)	$ (34,771)	$ (7,948)
Percent of total revenues	(1)%	(1)%	

Interest expense consists of interest on our convertible senior notes, capital leases, term loan, financing obligation related to 350 Mission, 50 Fremont mortgage and the $500.0 million term loan that was entered into in connection with our acquisition of Demandware. Interest expense was $42.7 million for the six months ended July 31, 2016 and was $34.8 million during the same period a year ago.

Other income (expense).

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Other income (expense)	$ (13,282)	$ 1,029	$ (14,311)

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

Gain on sales of strategic investments.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Gains on sales of strategic investments	$ 12,864	$ 0	$ 12,864

Gains on sales of strategic investments were $12.9 million for the six months ended July 31, 2016 . Gains on sales of strategic investments primarily consist of significant gains on sales of strategic investments resulting from mergers and acquisitions that we initiated in which we previously held an equity interest.

Benefit from (provision for) income taxes.

	Six Months Ended July 31,		Variance
(in thousands)	**2016**	**2015**	**Dollars**
Benefit from (provision for) income taxes	$ 206,943	$ (21,791)	$ 228,734
Effective tax rate	(337)%	87%	

We recognized a tax benefit of $206.9 million on a pretax income of $61.4 million , which resulted in a negative effective tax rate of 337 percent for the six months ended July 31, 2016 . The most significant component of this tax amount was the discrete tax benefit of $265.7 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 of the United States. Additionally, as a result of early adopting ASU 2016-09 and our valuation allowance position, we did not record any U.S. current income tax expense.

We regularly assess the realizability of our deferred tax assets and establish a valuation allowance if it is more-likely-than-not that some or all of our deferred tax assets will not be realized. We evaluate and weigh 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. Generally, more weight is given to objectively verifiable evidence, such as the cumulative loss in recent years. We will adjust our valuation allowance in the event sufficient positive evidence overcomes the negative evidence of losses in recent years, for example, if our trend in increasing taxable income continues. Due to our valuation allowance, the effective tax rate could be volatile and is therefore difficult to forecast in future periods.

We recorded a tax provision of $21.8 million with a pretax income of $25.0 million, which resulted in an effective tax rate of 87 percent for the six months ended July 31, 2015 . The tax provision recorded was primarily due to income taxes in profitable jurisdictions outside the United States.

Liquidity and Capital Resources

At July 31, 2016 , our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $1.7 billion and accounts receivable of $1.3 billion .

Net cash provided by operating activities was $1.3 billion during the six months ended July 31, 2016 and $1.0 billion during the same period a year ago. 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; discrete items such as the non-cash gain from the termination of the 50 Fremont lease; 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. Net cash provided by operating activities was also impacted by payments made during the three months ended July 31, 2016 for the transaction fees related to the acquisition of Demandware.

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, like the three months ended July 31, 2016, may be impacted by adverse foreign currency exchange rate movements. 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 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. 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 the six months ended July 31, 2016 and $769.9 million during the same period a year ago. The net cash used in investing activities during the six months ended July 31, 2016 primarily related to the acquisition of Demandware in July 2016, sales of marketable securities of approximately $1.8 billion , which partially facilitated cash outflows relating to the Demandware acquisition, strategic investments and capital expenditures, including new office build-outs and investment of cash balances offset by sales and maturities of marketable securities.

Net cash provided by financing activities was $655.8 million during the six months ended July 31, 2016 as compared to net cash used in financing activities of $88.1 million during the same period a year ago. Net cash provided by financing activities during the six months ended July 31, 2016 consisted primarily of $495.6 million of proceeds from the Term Loan, net of loan fees, $62.8 million of principal payments on capital leases, offset by $223.0 million from proceeds from equity plans and the reclassification of excess tax benefits from employee stock plans to cash flows from operating activities due to the early adoption of ASU 2016-09.

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the “Notes”), due April 1, 2018, unless earlier purchased by us or converted. The Notes will be convertible if during any 20 trading days during the 30 consecutive trading days of any fiscal quarter, our common stock trades at a price exceeding 130% of the conversion price of $66.44 per share applicable to the Notes. The Notes are classified as a noncurrent liability on our consolidated balance sheet as of July 31, 2016 . Our common stock did not trade at a price exceeding 130% of the conversion price of $66.44 per share applicable to the Notes during the fiscal quarter ended July 31, 2016 . Accordingly, the Notes were not convertible at the holders' option for the quarter ending July 31, 2016 .

In July 2016, we entered into a credit agreement (the " Revolving Loan Credit Agreement "), which provides for a $1.0 billion unsecured revolving credit facility (the "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 July 31, 2016 , we had no outstanding borrowings under the Credit Facility.

The Revolving Loan Credit Agreement contains certain customary affirmative and negative covenants, including a consolidated leverage ratio covenant, a consolidated interest coverage ratio covenant, a limit on our ability to incur additional indebtedness, dispose of assets, make certain acquisition transactions, pay dividends or distributions, and certain other restrictions on our activities each defined specifically in the Revolving Loan Credit Agreement . We were in compliance with the Revolving Loan Credit Agreement 's covenants as of July 31, 2016 .

In February 2015, we acquired 50 Fremont Street, a 41-story building totaling approximately 817,000 rentable square feet located in San Francisco, California ("50 Fremont"). At the time of the acquisition, we were leasing approximately 500,000 square feet of the available space in 50 Fremont.

The total purchase price for 50 Fremont was $637.6 million . In financing the purchase price, we used $115.0 million of restricted cash on hand and assumed a $200.0 million loan secured by the property with the remainder paid in cash.

In April 2016, we entered into an agreement with a third party provider for certain infrastructure services for a period of four years. The agreement provides that we will pay $35.0 million in the remainder of fiscal 2017, $96.0 million in fiscal 2018, $108.0 million in fiscal 2019 and $126.0 million in fiscal 2020.

In July 2016, in order to partially finance the acquisition of Demandware, we entered into a $500.0 million term loan (the "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%. The weighted average interest rate on the Term Loan was 2.0% as of July 31, 2016.

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

As of July 31, 2016 , we have a total of $83.9 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 July 31, 2016 , the future non-cancelable minimum payments under these commitments were as follows (in thousands):

	Capital Leases	Operating Leases	Financing Obligation - Leased Facility
Fiscal Period:			
Remaining six months of fiscal 2017	$ 37,433	$ 210,432	$ 10,565
Fiscal 2018	122,713	399,959	21,437
Fiscal 2019	115,794	350,317	21,881
Fiscal 2020	201,577	278,537	22,325
Fiscal 2021	36	252,082	22,770
Thereafter	0	1,401,711	233,927
Total minimum lease payments	477,553	$ 2,893,038	$ 332,905
Less: amount representing interest	(41,847)		
Present value of capital lease obligations	$ 435,706		

The majority of our operating lease agreements provide us with the option to renew. Our future operating lease obligations would change if we exercised these options and if we entered into additional operating lease agreements as we expand our operations.

The financing obligation above represents the total obligation for our lease of approximately 445,000 rentable square feet of office space in San Francisco, California. As of July 31, 2016 , $221.2 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 non-current portion is included in “Other noncurrent liabilities” on the consolidated balance sheets.

In February 2016, the Company entered into an agreement to sublease additional office space in New York, New York. The amounts associated with the agreement will be approximately $288.0 million over the approximately 12 year term of the agreement, beginning in the Company's first quarter of fiscal 2018. In May 2016, the Company entered into an agreement to lease additional office space in Indianapolis, Indiana. The amounts associated with the agreement will be approximately $77.0 million over the approximately 13 year term of the agreement, beginning in the Company's second quarter of fiscal 2018.

During the remaining months of fiscal 2017 and in future fiscal years, we have made and expect to continue to make additional investments in our infrastructure to scale our operations and increase productivity. We plan to upgrade or replace various internal systems to scale with the overall growth of the Company. Additionally, we expect capital expenditures to be higher in absolute dollars and remain consistent as a percentage of total revenues in future periods as a result of continued office build-outs, other leasehold improvements and data center investments.

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

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

New Accounting 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.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP net income, non-GAAP gross profit, non-GAAP operating profit, non-GAAP free cash flow, non-GAAP earnings per share, and constant currency results, each meet the definition of a non-GAAP financial measure. The primary purpose of using non-GAAP measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or non-recurring items on the Company's operating performance and to enable investors to evaluate the Company's results in the same way management does. These non-cash or non-recurring items generally consist of one-time items resulting from strategic decisions that affect multiple periods or periods unrelated to when the actual items were incurred. Management believes that supplementing GAAP disclosure with non-GAAP disclosure that excludes items that are not directly related to performance in any particular period provides investors with a more complete view of the company's operational performance and allows for meaningful period-to-period comparisons and analysis of trends in the Company's business. Further, to the extent that other companies use similar methods in calculating non-GAAP measures, the provision of supplemental non-GAAP information can allow for a comparison of the Company's relative performance against other companies that also report non-GAAP operating results.

Non-GAAP net income

We define non-GAAP net income as our total net income excluding the components described below, which we believe are not reflective of our core, ongoing operating results. In each case, for the reasons set forth below, we believe that excluding the component provides useful information to investors and others in understanding and evaluating the impact of certain items to our operating results and future prospects in the same manner as we do, in comparing financial results across accounting periods and to those of peer companies and in better understanding the impact of these items on our gross margin and operating performance.

- *Stock-Based Expense.* The Company's compensation strategy includes the use of stock-based compensation to attract and retain employees and executives. It is principally aimed at aligning their interests with those of our stockholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, stock-based expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- *Amortization of Purchased Intangibles and Acquired Leases.* The Company views amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts, trade names, customer lists, customer relationships and acquired lease intangibles, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.
- *Amortization of Debt Discount.* Under GAAP, certain convertible debt instruments that may be settled in cash (or other assets) on conversion are required to be separately accounted for as liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. Accordingly, for GAAP purposes we are required to recognize imputed interest expense on the Company's $1.15 billion of convertible senior notes due 2018 that were issued in a private placement in March 2013. The imputed interest rate was approximately 2.53% for the convertible notes due 2018, while the actual coupon interest rate of the notes was 0.25%. The difference between the imputed interest expense and the coupon interest expense, net of the interest amount capitalized, is excluded from management's assessment of the Company's operating performance because management believes that this non-cash expense is not indicative of its core, ongoing operating performance.
- *Gains and Losses on Sales of Strategic Investments.* The Company views gains and losses on sales of its strategic investments resulting from acquisitions initiated by the Company in which an equity interest was previously held as discrete events and not indicative of operational performance during any particular period.
- *Lease Termination Resulting from Purchase of Office Building.* The Company views the non-cash, one-time gain associated with the termination of its lease at 50 Fremont to be a discrete item.

- *Income Tax Effects and Adjustments.* The Company utilizes a fixed long-term projected non-GAAP tax rate in order to provide better consistency across the interim reporting periods by eliminating the effects of non-recurring and period-specific items such as changes in the tax valuation allowance and tax effects of acquisitions-related costs, since each of these can vary in size and frequency. When projecting this long-term rate, the Company evaluated a three-year financial projection that excludes the direct impact of the following non-cash items: stock-based expenses, amortization of purchased intangibles, amortization of acquired leases, amortization of debt discount, gains/losses on conversions of debt, gains on sales of strategic investments and termination of office leases. The projected rate also assumes no new acquisitions in the three-year period, and considers other factors including the Company's tax structure, its tax positions in various jurisdictions and key legislation in major jurisdictions where the company operates. This long-term rate could be subject to change for a variety of reasons, such as significant changes in the geographic earnings mix including acquisition activity, or fundamental tax law changes in major jurisdictions where the company operates. The Company re-evaluates this long-term rate on an annual basis or if any significant events that may materially affect this long-term rate occur. The non-GAAP tax rate for fiscal 2017 is 35.0 percent. At the start of fiscal 2016, the Company used a tax rate of 36.5 percent, which was revised to 35.5 percent during the quarter ended October 31, 2015 to account for the related tax impact from the Tax Court decision in Altera Corporation's litigation with the Internal Revenue Service.

Additionally, as significant, unusual or discrete events occur, or as other events occur that are not related to the Company's core, ongoing operating results, we may exclude the financial results of these events from non-GAAP net income in the period in which such events occur. For example, we could in the future recognize a significant gain or loss in connection with one or more of our strategic investments, which may not be viewed by management as reflective of our core, ongoing operating results. Similarly, the financial effects of significant facilities-related transactions may in the future be excluded from non-GAAP net income in the period in which such events may occur, if they are not viewed by management as reflective of our core, ongoing operating results.

Non-GAAP gross profit

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

Non-GAAP operating profit

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

Non-GAAP earnings per share

We define non-GAAP earnings per share as our non-GAAP net income divided by basic or diluted shares outstanding.

Non-GAAP free cash flow

We define the non-GAAP measure free cash flow as GAAP net cash provided by operating activities, less capital expenditures. For this purpose, capital expenditures does not include our strategic investments, nor does it include any costs or activities related to our purchase of 50 Fremont land and building, and building - leased facilities.

Constant currency results

We present constant currency information to provide a framework for assessing how our underlying business performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period results for entities reporting in currencies other than United States dollars are converted into United States dollars at the weighted average exchange rate for the quarter being compared to for growth rate calculations presented, rather than the actual exchange rates in effect during that period. To present deferred revenue on a constant currency basis, we convert the deferred revenue balances in local currencies in previous comparable periods using the United States dollar currency exchange rate as of the most recent balance sheet date.

Limitations on the use of non-GAAP financial measures

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

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

Our reconciliation of the non-GAAP financial measures to the most comparable GAAP measures for the three and six months ended July 31, 2016 and 2015 are as follows (in thousands, except for share numbers):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Non-GAAP gross profit				
GAAP gross profit	$ 1,511,039	$ 1,229,300	$ 2,930,661	$ 2,358,665
Plus:				
Amortization of purchased intangibles	25,544	20,839	47,759	40,529
Stock-based expense	23,495	16,340	50,129	31,721
Non-GAAP gross profit	$ 1,560,078	$ 1,266,479	$ 3,028,549	$ 2,430,915

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Non-GAAP income from operations				
GAAP income from operations	$ 32,551	$ 19,824	$ 84,537	$ 50,929
Plus:				
Amortization of purchased intangibles	48,695	39,841	86,296	79,558
Stock-based expense	182,310	147,779	371,229	290,339
Less:				
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(36,617)
Non-GAAP income from operations	$ 263,556	$ 207,444	$ 542,062	$ 384,209

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Non-GAAP net income				
GAAP net income (loss)	$ 229,622	$ (852)	$ 268,381	$ 3,240
Plus:				
Amortization of purchased intangibles	48,695	39,841	86,296	79,558
Amortization of acquired lease intangible	642	1,301	1,348	2,116
Stock-based expense	182,310	147,779	371,229	290,339
Amortization of debt discount, net	6,264	6,110	12,490	12,169
Less:				
Operating lease termination resulting from purchase of 50 Fremont	0	0	0	(36,617)
Gains on sales of strategic investments	0	0	(12,864)	0
Income tax effects and adjustments	(297,107)	(65,916)	(388,921)	(114,207)
Non-GAAP net income	$ 170,426	$ 128,263	$ 337,959	$ 236,598

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Non-GAAP diluted earnings per share				
GAAP diluted net income per share	$ 0.33	$ 0.00	$ 0.39	$ 0.00
Plus:				
Amortization of purchased intangibles	0.07	0.06	0.12	0.12
Amortization of acquired lease intangible	0.00	0.00	0.00	0.00
Stock-based expenses	0.26	0.22	0.54	0.43
Amortization of debt discount, net	0.01	0.01	0.02	0.02
Less:				
Operating lease termination resulting from purchase of 50 Fremont	0.00	0.00	0.00	(0.05)
Gains on sales of strategic investments	0.00	0.00	(0.02)	0.00
Income tax effects and adjustments	(0.43)	(0.10)	(0.56)	(0.17)
Non-GAAP diluted earnings per share	$ 0.24	$ 0.19	$ 0.49	$ 0.35
Shares used in computing Non-GAAP diluted net income per share	695,968	672,627	691,714	672,231

Non-GAAP net income for the quarter ended July 31, 2016 was $170.4 million and $128.3 million for the same period a year ago, an increase of $42.1 million or 33 percent . During the first six months of fiscal 2017 we remained focused on improving non-GAAP operating profit and expect to remain similarly focused for the remaining six months of fiscal 2017.

	Three Months Ended July 31,		Six Months Ended July 31,	
Free cash flow analysis	2016	2015	2016	2015
Operating cash flow				
GAAP net cash provided by operating activities	$ 250,678	$ 304,278	$ 1,301,740	$ 1,039,359
Less:				
Capital expenditures	(96,030)	(64,883)	(179,331)	(135,970)
Free cash flow	$ 154,648	$ 239,395	$ 1,122,409	$ 903,389

ITEM 3. 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. 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. For example, revenue for the second quarter of fiscal 2017 was $2.0 billion , an increase of 25 percent year over year, and 26 percent in constant currency. Deferred revenue on the balance sheet as of July 31, 2016 was $3.82 billion , an increase of 26 percent year over year, and 27 percent in constant currency.

Foreign Currency Transaction Risk

Our foreign currency exposures typically arise from selling annual and multi-year subscriptions in multiple currencies, customer trade 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 sheet with changes in fair values recorded to our consolidated statement 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 expense and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into U.S. Dollars. As the U.S. Dollar strengthened against certain international currencies over the past several months, the amounts of revenue and deferred revenue that we reported in U.S. Dollars for foreign subsidiaries that transact in international currencies were lower relative to what we would have reported using a constant currency rate. We report in Management's Discussion and Analysis our revenue and deferred revenue growth rates on both an absolute dollar and constant currency basis.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling $1.7 billion at July 31, 2016 . This amount was invested primarily in money market funds, time deposits, corporate notes and bonds, government securities and other debt securities with credit ratings of at least BBB or better. The cash, cash equivalents and short-term marketable securities are held for general corporate purposes including possible acquisitions of, or investments in, complementary businesses, services or technologies, working capital and capital expenditures. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

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

An immediate increase or decrease in interest rates of 100-basis points at July 31, 2016 could result in a $12.5 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, 2016 , we had cash, cash equivalents and marketable securities totaling $2.7 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 $20.9 million.

Market Risk and Market Interest Risk

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the "Notes") due April 1, 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 are exposed to interest rate risk. Generally, the fair values of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our 0.25% Notes is affected by our stock price. The principal balance of our Notes was $1.15 billion as of July 31, 2016 . The total estimated fair value of our Notes at July 31, 2016 was $1.5 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 second quarter of fiscal 2017 , which was $131.50 .

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

The Borrowings under the Credit Facility bear interest, at the 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 at a rate of 0.125% to 0.25% , with such rate being based on the our consolidated leverage ratio for the preceding four fiscal quarter period, payable in arrears quarterly. As of July 31, 2016 there was no outstanding borrowing amount under the Credit Agreement.

In February 2015, we assumed a $200.0 million loan with the acquisition of 50 Fremont (the "Loan"). The Loan bears an interest rate of 3.75% per annum and is due in June 2023. The Loan requires interest only payments 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 July 31, 2016 .

In July 2016, we entered into a $500.0 million term loan (the "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. The Term Loan is payable in July 2019, with the outstanding principal amount of the term loan being due and payable at maturity.

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 2.0% as of July 31, 2016 . Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations.

We deposit our cash with multiple financial institutions.

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. Our 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 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.

Our portfolio consists of investments in over 160 privately held companies, primarily comprised of independent software vendors and system integrators. 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. Our investments in these companies range from $0.2 million to over $70.0 million, with 12 investments individually equal to or in excess of $10 million. As of July 31, 2016 and January 31, 2016 the carrying value of our investments in privately held companies was $491.7 million and $504.5 million , respectively. The estimated fair value of our investments in privately held companies was $700.1 million and $714.1 million as of July 31, 2016 and January 31, 2016 , 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 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 4. 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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officer and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of business, we are or may be involved in various legal proceedings and claims related to alleged infringement of third-party patents and other intellectual property rights, commercial, corporate and securities, labor and employment, class actions, wage and hour, and other claims. We have been, and may in the future be put on notice and/or sued by third parties for alleged infringement of their proprietary rights, including patent infringement.

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

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

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

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

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

ITEM 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, our services may be perceived as not being secure, customers may curtail or stop using our services, and we may incur significant legal and financial exposure and liabilities.

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

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

Because our services are complex and incorporate a variety of hardware and proprietary and third-party software, our services may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. Cloud services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in, 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 maintaining the quality standards that are consistent with our brand and reputation. Since our customers use our services for important aspects of their business, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' businesses. As a result, customers could elect to not renew our services or delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

Interruptions or delays in services from our third-party data center hosting facilities or cloud computing platform providers could impair the delivery of our services and harm our business.

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

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

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

Regulation related to the provision of services on the Internet is increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information. In some cases, foreign data privacy laws and regulations, such as the European Union's Data Protection Directive, and the country-specific laws and regulations that implement that directive, also govern the processing of personal information. Further, laws are increasingly aimed at the use of personal information for marketing purposes, such as the European Union's e-Privacy Directive, and the country-specific regulations that implement that directive. Such laws and regulations are subject to new and differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services or restrict our ability to store and process data or, in some cases, impact our ability to offer our services in certain locations or our customers' ability to deploy our solutions globally. For example, in October 2015, the European Court of Justice invalidated the U.S.-EU Safe Harbor framework that had been in place since 2000, which allowed companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the United States. While other adequate legal mechanisms to lawfully transfer such data remain, the invalidation of the U.S.-EU Safe Harbor framework may result in different European data protection regulators applying differing standards for the transfer of personal data, which could result in increased regulation, cost of compliance and limitations on data transfer for us and our customers. The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, 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 us. Our customers expect us to meet voluntary certification or other standards established by third parties, such as TRUSTe. If we are unable to maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

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

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

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

In some cases, industry-specific laws, regulations or interpretive positions may also apply directly to us as a service provider. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business.

We rely on third-party computer hardware, software and cloud computing platforms that could cause errors in, or failures of, our services and may be difficult to replace.

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

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

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

- on premise offerings from enterprise software application vendors;
- cloud computing application service providers;
- software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- social media companies;
- traditional platform development environment companies;
- cloud computing development platform companies;
- internally developed applications (by our potential customers' IT departments); and
- IoT platforms from large companies that have existing relationships with hardware and software companies.

Many of our current and potential competitors enjoy substantial competitive advantages, such as greater name recognition, longer operating histories and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our current and potential competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Furthermore, because of these advantages, even if our 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.

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

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

- potential failure to achieve the expected benefits of the combination or acquisition;
- difficulties in, and the cost of, integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- the potential entry into new markets in which we have little or no experience or where competitors may have stronger market positions;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- potential loss of key employees of the acquired company;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- inability to maintain relationships with customers and partners of the acquired business;
- difficulty of transitioning the acquired technology onto our existing platforms and maintaining the security standards for such technology consistent with our other services;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into our existing technology;
- negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation; additional stock based compensation; and the loss of acquired deferred revenue and unbilled deferred revenue;
- delays in customer purchases due to uncertainty related to any acquisition;
- the need to implement controls, procedures and policies at the acquired company;
- challenges caused by distance, language and cultural differences;
- in the case of foreign acquisitions, the challenges associated with integrating operations across different cultures and languages and any currency and regulatory risks associated with specific countries; and
- the tax effects of any such acquisitions.

Any of these risks could harm our business. In addition, if we finance acquisitions by issuing equity or convertible or other debt securities or loans, our existing stockholders may be diluted, or we could face constraints related to the terms of and repayment obligation related to the incurrence of indebtedness that could affect the market price of our common stock.

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. 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 and our stock price and the value of our common stock could decline substantially.

Our quarterly results are likely to fluctuate. For example, our fiscal fourth quarter has historically been our strongest quarter for new business and renewals. The year-over-year compounding effect of this seasonality in billing patterns and overall new business and renewal activity causes the value of invoices that we generate in the fourth quarter to continually increase in proportion to our billings in the other three quarters of our fiscal year. As a result, our fiscal first quarter 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 amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- changes in deferred revenue and unbilled deferred revenue balances, which are not reflected in the balance sheet, due to seasonality, the compounding effects of renewals, invoice duration, size and timing, new business linearity between quarters and within a quarter and fluctuations due to foreign currency movements;
- changes in foreign currency exchange rates;
- the number of new employees;
- changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;
- the cost, timing and management effort for the introduction of new features to our services;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integration and consolidating the results of acquired businesses;
- the rate of expansion and productivity of our sales force;
- the length of the sales cycle for our services;
- new product and service introductions by our competitors;
- our success in selling our services to large enterprises;
- evolving regulations of cloud computing and cross-border data transfer restrictions and similar regulations;
- variations in the revenue mix of editions of our services;
- technical difficulties or interruptions in our services;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- changes in interest rates and our mix of investments, which would impact the return on our investments in cash and marketable securities;
- conditions, particularly sudden changes, in the financial markets, which have impacted and may continue to impact the value of and liquidity of our investment portfolio;

- income tax effects;
- our ability to realize benefits from strategic partnerships, acquisition or investments;
- other than temporary impairments in the value of our strategic investments in early-to-late stage privately held companies, which could be material in a particular quarter;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- general economic conditions, which may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their services, or delay a prospective customer's purchasing decision, reduce the value of new subscription contracts, or affect attrition rates;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- regulatory compliance costs;
- changes in payment terms and the timing of customer payments and payment defaults by customers;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements, for example, the adoption of ASU 2016-09 and the volatility of the effective tax rate;
- 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;
- the timing of commission, bonus, and other compensation payments to employees; and
- the timing of payroll and other withholding tax expenses, which are triggered by the payment of bonuses and when employees exercise their vested stock awards.

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

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

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

Due to the pace of change and innovation in enterprise cloud computing services and the unpredictability of future general economic and financial market conditions and the impact of foreign currency exchange rate fluctuations, we may not be able to accurately forecast our rate of growth. We plan our expense levels and investment on estimates of future revenue and future anticipated rate of growth. We may not be able to adjust our spending appropriately if the addition of new subscriptions or the renewals of existing subscriptions fall short of our expectations. A portion of our expenses may also be fixed in nature for some minimum amount of time, such as with a data center contract or office lease, so it may not be possible to reduce costs in a timely manner or without the payment of fees to exit certain obligations early. As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis. Our recent revenue growth rates may not be sustainable and may decline in the future. We believe that historical period-to-period comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

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

We derive substantially all of our revenue from subscriptions to our CRM enterprise cloud computing application services, and we expect this will continue for the foreseeable future. The markets for our Analytics, Communities, IoT and Commerce Clouds remain relatively new and it is uncertain whether our efforts will ever result in significant revenue for us. Commerce Cloud originated as part of our Demandware acquisition. 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. Our efforts to expand our services beyond the CRM market may not succeed and may reduce our revenue growth rate.

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

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.

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

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

- localization of our services, including translation into foreign languages and associated expenses;
- laws and business practices favoring local competitors;
- pressure on the creditworthiness of sovereign nations, particularly in Europe, where we have customers and a balance of our cash, cash equivalents and marketable securities;
- liquidity issues or political actions by sovereign nations, which could result in decreased values of these balances;
- foreign currency fluctuations and controls;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data 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.

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

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

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

If our customers do not renew their subscriptions for our services or reduce the number of paying subscriptions at the time of renewal, our revenue will decline and our business will suffer. If we cannot accurately predict subscription renewals or upgrade rates, we may not meet our revenue targets which may adversely affect the market price of our common stock.

Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, which is typically 12 to 36 months, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or switch to lower cost offerings of our services. We cannot accurately predict attrition rates given our varied customer base of enterprise and small and medium size business customers and the number of multi-year subscription contracts. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers' spending levels, decreases in the number of users at our customers, pricing 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 our efforts to upsell to our customers are not successful our business may suffer.

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

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

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.

We conduct our business in the following locations: 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 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, the Euro and Japanese Yen against the U.S. Dollar. These exposures may change over time as business practices evolve and economic conditions change, including, for example, sudden global economic conditions resulting from measures like the referendum in the United Kingdom in June 2016, which resulted in a vote in favor of exiting the European Union ("Brexit"). The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings.

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 will be unable to execute our business plan.

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

As we target more of our sales efforts at larger enterprise customers, 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 customization, integration services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting our own sales and professional services resources to a smaller number of larger transactions, while potentially requiring us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met.

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

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

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

We are involved in various legal matters arising from the normal course of business activities. These may include claims, suits, government investigations and other proceedings involving alleged infringement of third-party patents and other intellectual property rights, 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. For example, during fiscal 2015, we received a communication from a large technology company alleging that we infringed certain of its patents. While we continue to analyze this claim and no litigation has been filed to date, there can be no assurance that this claim will not lead to litigation in the future. Our technologies may be subject to injunction if they are found to infringe the rights of a third party or we may be required to pay damages, or both. Further, many of our subscription agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

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

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

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

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

If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, and our business may be harmed. In addition, defending our intellectual property rights may entail significant expense. Any of our patents, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and many U.S. and international patent applications pending, we may be unable to obtain patent protection for the technology covered in our patent applications or the patent protection may not be obtained quickly enough to meet our business needs. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain, and we also may face proposals to change the scope of protection for some intellectual property rights in the U.S. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Also, our involvement in standard setting activity or the need to obtain licenses from others may require us to license our intellectual property. Accordingly, despite our efforts, we may be unable to prevent third parties from using our intellectual property.

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

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

We believe that the brand identities we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Salesforce brand and our other brands are critical to expanding our base of customers, partners and employees. Our brand strength will depend largely on our ability to remain a technology leader and continue to provide high-quality innovative products, services, and features. In order to maintain and enhance our brands, we may be required to make substantial investments that may later prove to be unsuccessful. In addition, positions the Company takes on social issues may be unpopular with some customers or potential customers, which may impact our ability to attract or retain such customers. 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 and operations personnel. We may not be successful in attracting and retaining qualified personnel. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

In addition, we believe in the importance of our corporate culture, or Aloha spirit, which fosters dialogue, collaboration, recognition and a sense of family. As our organization grows, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

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

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

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

We periodically change and make adjustments to our sales organization in response to market opportunities, competitive threats, management changes, product introductions or enhancements, acquisitions, sales performance, increases in sales headcount, cost levels and other internal and external considerations. Any such future sales organization changes may result in a temporary reduction of productivity, which could negatively affect our rate of growth. In addition, any significant change to the way we structure our compensation of our sales organization may be disruptive and may affect our revenue growth.

Unanticipated changes in our effective tax rate and additional tax liabilities may impact our 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, changes in U.S federal and state or international tax laws applicable to corporate multinationals such as the legislation recently enacted in the United Kingdom and Australia, other fundamental law changes currently being considered by many countries and changes in taxing jurisdictions' administrative interpretations, decisions, policies and positions. Additionally, in October 2015, the Organisation for Economic Co-Operation and Development released final guidance covering various topics, including transfer pricing, country-by-country reporting and definitional changes to permanent establishment which could ultimately impact our tax liabilities.

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

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

We have a high level of debt, including the 0.25% convertible senior notes we issued in March 2013 (the " 0.25% Senior Notes") due April 1, 2018, the loan we assumed when we purchased 50 Fremont, 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. We currently have no outstanding borrowings under this credit facility. Also in July 2016, we entered into the $500.0 million term loan to finance our acquisition of Demandware. Our maintenance of this indebtedness and any additional issuance 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 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 under our revolving credit facility. Any required repayment of our notes or revolving credit facility as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

The new lease accounting guidance places operating lease activity on our consolidated balance sheet in fiscal 2020, which results 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 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. For example, increased uncertainty in the wake of Brexit has resulted in increased volatility in the global financial markets and the impact of Brexit on the global economy in 2016 and beyond remains uncertain. 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 operating results.

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

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

Risks Relating to Our Convertible Senior Notes and Our Common Stock

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

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

- variations in our operating results, earnings per share, cash flows from operating activities, deferred revenue, year-over-year growth rates for individual core service offerings and other financial metrics and non-financial metrics, 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 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;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software, network or data center problems;
- the economy as a whole, market conditions in our industry and the industries of our customers;
- trading activity by a limited number of stockholders who together beneficially own a significant portion of our outstanding common stock;
- the issuance of shares of common stock by us, whether in connection with an acquisition, a capital raising transaction or upon conversion of some or all of our outstanding convertible senior notes; and
- issuance of debt or other convertible securities.

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our notes and common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our notes and common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of management's attention and resources.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- permit the board of directors to establish the number of directors;

- provide that directors may only be removed with the approval of holders of 66 2/3 percent of our outstanding capital stock;
- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of "blank check" preferred stock that our board could use to implement a stockholder rights plan (also known as a "poison pill");
- prohibit the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

The documents listed in the Index to Exhibits of this quarterly report on Form 10-Q are incorporated by reference or are filed with this quarterly report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

SIGNATURES

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

Dated: August 31, 2016

salesforce.com, inc.

By: /s/ Mark J. Hawkins

Mark J. Hawkins

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Dated: August 31, 2016

salesforce.com, inc.

By: /s/ Joe Allanson

Joe Allanson

Executive Vice President,
Chief Accounting Officer
and Corporate Controller
(Principal Accounting Officer)

Index to Exhibits

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of May 31, 2016, by and among salesforce.com, inc., Dynasty Acquisition Corp. and Demandware, Inc.		8-K	001-32224	2.1	06/01/2016
3.1	Amended and Restated Certificate of Incorporation of salesforce.com, inc.		8-K	001-32224	3.1	06/03/2016
3.2	Amended and Restated Bylaws of salesforce.com, inc.		8-K	001-32224	3.2	03/21/2016
10.1	2014 Inducement Equity Incentive Plan, as amended and restated effective June 2, 2016, and related forms of equity awards	X				
10.2	Commitment Letter, dated as of May 31, 2016, by and among salesforce.com, inc., Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated		8-K	001-32224	10.1	06/01/2016
10.3	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	07/11/2016
10.4	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	07/11/2016
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 Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					

Exhibit 10.1

SALESFORCE.COM, INC.

2014 INDUCEMENT EQUITY INCENTIVE PLAN

(As Amended and Restated Effective June 2, 2016)

1. Purposes of the Plan . The purposes of this Plan are:

- to attract and retain the best available Employees,
- to provide incentive to Employees, and
- to promote the success of the Company's business.

The Plan permits the grant of Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Bonus Awards, Performance Units and Performance Shares. Each Award under the Plan is intended to qualify as an employment inducement award under New York Stock Exchange Listing Rule 303A.08 (the "Listing Rule") and the Plan shall be interpreted and administered accordingly.

2. Definitions . As used herein, the following definitions will apply:

(a) " Administrator " means the Board or any of its Committees as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) " Affiliate " means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

(c) " Applicable Laws " means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(d) " Award " means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Bonus Awards, Performance Units or Performance Shares.

(e) " Award Agreement " means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. Each Award Agreement is subject to the terms and conditions of the Plan.

(f) " Award Transfer Program " means any program instituted by the Administrator that would permit Participants the opportunity to transfer for value any outstanding Awards to a financial institution or other person or entity approved by the Administrator. A transfer for "value" shall not be deemed to occur under this Plan where an Award is transferred by a Participant for bona fide estate planning purposes to a trust or other testamentary vehicle approved by the Administrator.

(g) " Board " means the Board of Directors of the Company.

(h) " Cause " means, unless otherwise defined by the Participant's Award Agreement or contract of employment or service, any of the following: (i) the Participant's theft, dishonesty, or falsification of any Participating Company documents or records; (ii) the Participant's improper use or disclosure of a Participating Company's confidential or proprietary information; (iii) any action by the Participant which has a detrimental effect on a Participating Company's reputation or business; (iv) the Participant's failure or inability to perform any reasonable assigned duties after written notice from a Participating Company of, and a reasonable opportunity to cure, such failure or inability; (v) any material breach by the Participant of any employment or service agreement between the Participant and a Participating Company, which breach is not cured pursuant to the terms of such agreement; or (vi) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act which impairs the Participant's ability to perform his or her duties with a Participating Company.

(i) " Change in Control " means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company; provided, however, that for purposes of this clause (i), (1) the acquisition of beneficial ownership of additional stock by any one Person who is considered to beneficially own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered a Change in Control; and (2) if the stockholders of the Company immediately before such change in ownership continue to retain immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the stock of the Company, such event shall not be considered a Change in Control under this clause (i). For this purpose, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or.

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this subsection (ii), if any

Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this definition, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Section 409A.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the jurisdiction of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(j) " Code " means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(k) " Committee " means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board, or a duly authorized committee of the Board, in accordance with Section 4 hereof.

(l) " Common Stock " means the common stock of the Company.

(m) " Company " means salesforce.com, inc., a Delaware corporation, or any successor thereto.

(n) " Consultant " means any natural person, including an advisor, engaged by the Company or a Parent or Subsidiary or other Affiliate to render services to such entity. However, a person shall not be deemed a Consultant if inclusion of that person as a Consultant would cause the Awards or Shares available under the Plan to be ineligible for registration on a Form S-8 Registration Statement under the Securities Act.

(o) " Director " means a member of the Board.

(p) " Disability " means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that the Administrator, in its discretion, may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(q) " Dividend Equivalent " means a credit, made at the discretion of the Administrator or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one Share for each Share represented by an Award held by such Participant.

(r) " Employee " means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary or other Affiliate of the Company. Neither service as a Director nor payment of a director's fee by the Company will be sufficient to constitute "employment" by the Company or an Affiliate. However, for the avoidance of doubt, although a person who is an Employee also may be a Director, a person who already is serving as a Director prior to becoming an Employee will not be eligible to be granted an Award under the Plan unless permitted under the Listing Rule. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual's employment or termination of employment, as the case may be. For purposes of an individual's rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(s) " Exchange Act " means the Securities Exchange Act of 1934, as amended.

(t) " Exchange Program " means a program under which (i) outstanding awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, or cash, (ii) Participants would have the opportunity to participate in an Award Transfer Program, or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion. For the avoidance of doubt, the term Exchange Program does not include any action authorized under Section 14 or Section 15 of the Plan.

(u) " Fair Market Value " means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, NASDAQ Global Select Market, the NASDAQ Global Market or the NASDAQ Capital Market of The NASDAQ Stock Market, its Fair Market Value will be the closing sales price for such stock (or the mean of the closing bid and asked prices for the Common Stock, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable. If the relevant date does not fall on a day on which the Common Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Common Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Administrator, in its discretion;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(v) " Fiscal Year " means the fiscal year of the Company.

(w) " Incentive Stock Option " means an Option that by its terms qualifies and is otherwise intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(x) " Inside Director " means a Director who is an Employee.

(y) " Nonstatutory Stock Option " means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(z) " Officer " means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(aa) " Option " means a stock option granted pursuant to the Plan. All Options granted under the Plan are intended to be Nonstatutory Stock Options.

(bb) " Outside Director " means a Director who is not an Employee.

(cc) " Parent " means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(dd) " Participant " means the holder of an outstanding Award.

(ee) " Participating Company " means the Company or any Affiliate.

(ff) " Performance Bonus Award " means a cash award set forth in Section 12.

(gg) " Performance Period " means the time period determined by the Administrator in its sole discretion during which the performance objectives must be met.

(hh) " Performance Share " means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 11.

(ii) " Performance Unit " means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 11.

(jj) " Plan " means this 2014 Inducement Equity Incentive Plan, as the same may be amended from time to time.

(kk) " Restricted Stock " means Shares issued pursuant to a Restricted Stock award under Section 8 of the Plan, or issued pursuant to the early exercise of an Option.

(ll) " Restricted Stock Unit " means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 9. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.

(mm) " Rule 16b-3 " means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(nn) " Section 16(b) " means Section 16(b) of the Exchange Act.

(oo) " Section 409A " means Section 409A of the Code, and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

(pp) " Securities Act " means the Securities Act of 1933, as amended.

(qq) " Service Provider " means an Employee, Director or Consultant. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be a Service Provider and the effective date of such individual's status as, or cessation of status as, a Service Provider. For purposes of an individual's rights, if any, under the Plan as of the time of the Company's determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(rr) “ Share ” means a share of the Common Stock, as adjusted in accordance with Section 15 of the Plan.

(ss) “ Stock Appreciation Right ” or “ SAR ” means an Award, granted alone or in connection with an Option, that pursuant to Section 10 is designated as a Stock Appreciation Right.

(tt) “ Subsidiary ” means a “ subsidiary corporation ,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

(uu) “ Tax Obligations ” means tax and social insurance liability obligations and requirements in connection with the Awards, including, without limitation, (A) all federal, state, and local taxes (including the Participant’s Federal Insurance Contributions Act (FICA) obligation) that are required to be withheld by the Company or the employing Affiliate, (B) the Participant’s and, to the extent required by the Company (or Affiliate), the Company’s (or Affiliate’s) fringe benefit tax liability, if any, associated with the grant, vesting, or exercise of an Award or sale of Shares, and (C) any other Company (or Affiliate) taxes the responsibility for which the Participant has, or has agreed to bear, with respect to such Award (or exercise thereof or issuance of Shares thereunder).

3. Stock Subject to the Plan .

(a) Stock Subject to the Plan . Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is the sum of (i) 1,335,000 Shares, plus (ii) the number of Shares (not to exceed a total of 2,750,000) that, as of July 9, 2014, remain available for issuance under the Company’s 2006 Inducement Equity Incentive Plan (the “2006 Plan”) or that, after that date, otherwise would have returned to the 2006 Plan pursuant to the terms of the 2006 Plan (for example, but not by way of limitation, due to the expiration or forfeiture of an award thereunder). The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Lapsed Awards . If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares), which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Upon exercise of a Stock Appreciation Right settled in Shares, the gross number of Shares covered by the portion of the Award so exercised, whether or not actually issued pursuant to such exercise will cease to be available under the Plan. Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company due to failure to vest, such Shares will become available for future grant under the Plan. Notwithstanding the foregoing, Shares used to pay the exercise price or purchase of an Award other than an Option or SAR or to satisfy the tax withholding obligations related to an Award other than an Option or SAR will become available for future grant or sale under the Plan; Shares used to pay the exercise price or purchase of an Option or SAR or to satisfy the tax withholding obligations related to an Option or SAR will not become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, whether pursuant to a Performance Bonus Award or other Award, such cash payment will not result in reducing the number of Shares available for issuance under the Plan. Notwithstanding anything in the Plan or any Award Agreement to the contrary, Shares actually issued pursuant to Awards transferred under any Award Transfer Program will not be again available for grant under the Plan.

(c) Share Reserve . The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan .

(a) Procedure .

(i) Multiple Administrative Bodies . Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Rule 16b-3 . To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iii) Other Administration . Other than as provided above, the Plan will be administered by (A) the Board or (B) a Committee, which committee will be constituted to satisfy Applicable Laws. The Administrator may, in its discretion and to the extent permitted by Applicable Laws, delegate to a Committee, including but not limited to, a Committee comprised of one or more Officers, the authority to grant one or more Awards, without further approval of the Administrator, on such terms and conditions as the Administrator, in its discretion, deems appropriate. To the extent of any delegation by the Administrator, references to the Administrator in the Plan and any Award Agreement shall be deemed also to include reference to the applicable delegate(s).

(iv) Delegation of Authority for Day-to-Day Administration; Authority of Officers . Except to the extent prohibited by Applicable Law, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in this Plan. Such delegation may be revoked at any time. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election.

(b) Powers of the Administrator . Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the individuals to whom Awards may be granted hereunder (which Awards shall be intended as a material inducement to the individual becoming an Employee);

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the method of payment for Shares purchased under any Award, the method for satisfaction of any tax withholding obligation arising in connection with an Award, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to determine the terms and conditions of any Exchange Program or Award Transfer Program and with the consent of the Company's stockholders, to institute an Exchange Program or Award Transfer Program (provided that the Administrator may not institute an Exchange Program or Award Transfer Program without first receiving the consent of the Company's stockholders);

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or qualifying for favorable tax treatment under applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 21 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option;

(x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 17 of the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator pursuant to such procedures as the Administrator may determine;

(xii) to allow a Participant, in compliance with all Applicable Laws including, but not limited to, Section 409A, to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xiii) to determine whether Awards will be settled in Shares, cash or in any combination thereof;

(xiv) to impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by the Participant of any Shares issued as a result of or under an Award, including without limitation, (A) restrictions under an insider trading policy, and (B) restrictions as to the use of a specified brokerage firm for such resales or other transfers;

(xv) to require that the Participant's rights, payments and benefits with respect to an Award (including amounts received upon the settlement or exercise of an Award) shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award, as may be specified in an Award Agreement at the time of the Award, or later if (A) Applicable Laws require the Company to adopt a policy requiring such reduction, cancellation, forfeiture or recoupment, or (B) pursuant to an amendment of an outstanding Award; and

(xvi) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision . The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards and shall be given the maximum deference permitted by law.

5. Eligibility . Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Bonus Awards, Performance Shares and Performance Units may be granted to any individual as a material inducement to the individual becoming an Employee, as provided in the Listing Rule.

6. Limitations on Grants . The following limitations shall apply to Awards under the Plan: subject to adjustment as provided in Section 15, during any Fiscal Year, no Employee will be granted:

(i) Options or SARs covering more than a total of 28,000,000 Shares;

(ii) Restricted Stock or Restricted Stock Units or Performance Shares covering more than 14,000,000 Shares;

(iii) Performance Units having an initial value greater than $20,000,000;

(iv) Performance Bonus Awards that could result in such Employee receiving more than $10,000,000 in any one Fiscal Year.

(v) If an Award is cancelled in the same Fiscal Year in which it was granted (other than in connection with a transaction described in Section 15(c)), the cancelled Award will be counted against the limits set forth in this Section 6.

7. Stock Options .

(a) Grant of Option . The Administrator, in its sole discretion and subject to the terms and conditions of the Plan, may grant Options to any individual as a material inducement to the individual becoming an Employee, which grant shall become effective only if the individual actually becomes an Employee. Subject to Section 6 and the other terms and conditions of the Plan, the Administrator will have complete discretion to determine the number of Shares granted to any Employee. Each Option shall be evidenced by an Award Agreement (which may be in electronic form) that shall specify the exercise price, the expiration date of the Option, the number of Shares covered by the Option, any conditions to exercise the Option, and such other terms and conditions as the Administrator, in its discretion, shall determine.

(b) Term of Option . The term of each Option will be stated in the Award Agreement; provided, however, that the term will be no more than seven (7) years from the date of grant hereof.

(c) Option Exercise Price and Consideration .

(i) Exercise Price . The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) The per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates . At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised. At any time after the grant of an Option, the Administrator, in its sole discretion, may reduce or waive any vesting criteria or waiting periods and may accelerate the time at which any restrictions will lapse or be removed.

(iii) Form of Consideration . The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. Such consideration may consist entirely of, without limitation: (1) cash; (2) check; (3) promissory note, to the extent permitted by Applicable Laws, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares will not result in any adverse accounting consequences to the Company, as the Administrator determines in its sole discretion; (5) consideration received by the Company under a cashless exercise program (whether through a broker, net exercise program or otherwise) implemented by the Company in connection with the Plan; (6) by reduction in the amount of any Company liability to the Participant, (7) by net exercise; (8) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or (9) any combination of the foregoing methods of payment.

(d) Exercise of Option .

(i) Procedure for Exercise; Rights as a Stockholder . Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) a notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider . If a Participant ceases to be a Service Provider, other than upon the Participant’s termination as the result of the Participant’s death or Disability or as a result of a termination for Cause, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for ninety (90) days following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant . If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant . If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan. The Participant's status as a Service Provider shall be deemed to have terminated on account of death if the Participant dies within ninety (90) days (or such longer period of time as determined by the Administrator, in its discretion) after the Participant's termination as a Service Provider.

(v) Termination for Cause . Notwithstanding any other provision of the Plan to the contrary, if the Participant's status as a Service Provider is terminated for Cause, the Option shall terminate and cease to be exercisable immediately upon such termination as a Service Provider.

(e) Extension if Exercise Prevented by Law . Notwithstanding the foregoing, other than termination of Service for Cause, if the exercise of an Option within the applicable time periods set forth in Section 7(d) is prevented by the provisions of Section 26 below, the Option shall remain exercisable until ninety (90) days (or such longer period of time as determined by the Administrator, in its discretion) after the date the Participant is notified by the Company that the

Option is exercisable, but in no event later than the expiration of the term of such Option as set forth in the Award Agreement.

(f) Extension if Participant Subject to Section 16(b) . Notwithstanding the foregoing, other than termination of Service for Cause, if a sale within the applicable time periods set forth in Section 7(d) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, or (ii) the expiration of the term of such Option as set forth in the Award Agreement.

8. Restricted Stock .

(a) Grant of Restricted Stock . The Administrator, in its sole discretion and subject to the terms and conditions of the Plan, may grant Awards of Restricted Stock to any individual as a material inducement to the individual becoming an Employee, which grant shall become effective only if the individual actually becomes an Employee. The Administrator, in its sole discretion and subject to Section 6 of the Plan, shall determine the number of Shares to be granted to each such individual.

(b) Restricted Stock Agreement . Each Award of Restricted Stock will be evidenced by an Award Agreement (which may be in electronic form) that will specify any vesting conditions, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. For purposes of clarity, an Award of Restricted Stock may be granted without vesting conditions or other restrictions. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares, if any, have lapsed.

(c) Transferability . Except as provided in this Section 8, Section 14 or the Award Agreement, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable vesting period (if any).

(d) Other Restrictions . The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate. The Administrator may set restrictions based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit, or individual), applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(e) Removal of Restrictions . Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the vesting period or at such other time as the Administrator may determine. The Administrator, in its discretion, may reduce or waive any vesting criteria and may accelerate the time at which any restrictions will lapse or be removed. The Administrator, in its discretion, may establish procedures regarding the release of Shares from escrow or removal of legends, as necessary or appropriate to minimize administrative burdens on the Company.

(f) Legend on Certificates . The Administrator, in its discretion, may require that one or more legends be place on the certificates representing Restricted Stock to give appropriate notice of the applicable restrictions.

(g) Voting Rights . During the vesting period, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(h) Dividends and Other Distributions . During the vesting period, Participants holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. Any such dividends or distributions shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid, unless otherwise provided in the Award Agreement.

(i) Return of Restricted Stock to Company . On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and, subject to Section 3, again will become available for grant under the Plan.

9. Restricted Stock Units .

(a) Grant . The Administrator, in its sole discretion and subject to the terms and conditions of the Plan, may grant Restricted Stock Units to any individual as a material inducement to the individual becoming an Employee, which grant shall become effective only if the individual actually becomes an Employee. The Administrator, in its sole discretion and subject to Section 6 of the Plan, shall determine the number of Shares to be covered by each such Award.

(b) Award Agreement . Each Award of Restricted Stock Units will be evidenced by an Award Agreement (which may be in electronic form) that will specify any vesting conditions, the number of Restricted Stock Units granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(c) Vesting Criteria and Other Terms . The Administrator will set vesting criteria (if any) in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its discretion.

(d) Earning Restricted Stock Units . Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator.

Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout and may accelerate the time at which any restrictions will lapse or be removed.

(e) Form and Timing of Payment . Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement; provided, however, that the timing of payment shall in all cases comply with Section 409A to the extent applicable to the Award. The Administrator, in its sole discretion, may settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(f) Cancellation . On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company and, subject to Section 3, again will become available for grant under the Plan.

(g) Voting Rights, Dividend Equivalents and Distributions . Participants shall have no voting rights with respect to Shares represented by Restricted Stock Units until the date of the issuance of such Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Administrator, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Shares having a record date prior to the date on which the Restricted Stock Units held by such Participant are settled or forfeited. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Shares. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (i) the amount of cash dividends paid on such date with respect to the number of Shares represented by the Restricted Stock Units previously credited to the Participant by (ii) the Fair Market Value per Share on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions, including but not limited to vesting conditions, and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. Settlement of Dividend Equivalents may be made in cash, Shares, or a combination thereof as determined by the Administrator. In the event of a dividend or distribution paid in Shares or any other adjustment made upon a change in the capital structure of the Company as described in Section 15 appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the Shares issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same vesting conditions as are applicable to the Award.

10. Stock Appreciation Rights .

(a) Grant of Stock Appreciation Rights. The Administrator, in its sole discretion and subject to the terms and conditions of the Plan, may grant Stock Appreciation Rights to any individual as a material inducement to the individual becoming an Employee, which grant shall become effective only if the individual actually becomes an Employee.

(b) Number of Shares. Subject to Section 6 and the other terms and conditions of the Plan, the Administrator will have complete discretion to determine the number of Shares subject to Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing, Stock Appreciation Rights may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code. Otherwise, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan. At any time after the grant of a Stock Appreciation Right, the Administrator, in its sole discretion, may reduce or waive any vesting criteria and may accelerate the time at which any restrictions will lapse or be removed.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement (which may be in electronic form) that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 7(b) relating to the maximum term and Sections 7(d), 7(e) and 7(f) relating to exercise also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

11. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares . The Administrator, in its sole discretion and subject to the terms and conditions of the Plan, may grant an Award of Performance Units or Performance Shares to any individual as a material inducement to the individual becoming an Employee, which grant shall become effective only if the individual actually becomes an Employee. The Administrator, in its sole discretion and subject to Section 6 of the Plan, shall determine the number of Shares to be covered by each such Award.

(b) Award Agreement . Each Award of Performance Shares and Performance Units will be evidenced by an Award Agreement (which may be in electronic form) that will specify any vesting conditions, the number of Performance Shares or Performance Units, as applicable, granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(c) Value of Performance Units/Shares . Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(d) Performance Objectives and Other Terms . The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) (if any) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units or Performance Shares, as applicable, that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met is the Performance Period. Each Award of Performance Units and Performance Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set vesting criteria based upon continued employment or service, the achievement of specific performance objectives (Company-wide, departmental, divisional, business unit, or individual goals (including, but not limited to, continued employment or service), applicable federal or state securities laws or any other basis determined by the Administrator in its discretion.

(e) Earning of Performance Units/Shares . After the applicable Performance Period has ended, the holder of Performance Units or Performance Shares, as applicable, will be entitled to receive a payout of the number of Performance Units or Performance Shares, as applicable, earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit or Performance Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit or Performance Share, as applicable, and may accelerate the time at which any restrictions will lapse or be removed.

(f) Form and Timing of Payment of Performance Units/Shares . Payment of earned Performance Units and Performance Shares will be made as soon as practicable after the expiration of the applicable Performance Period or as otherwise determined by the Administrator; provided, however, that the timing of payment shall in all cases comply with Section 409A to the extent applicable to the Award. The Administrator, in its sole discretion, may pay earned Performance Units and Performance Shares in the form of cash, in Shares or in a combination thereof.

(g) Cancellation of Performance Units/Shares . On the date set forth in the Award Agreement, all unearned or unvested Performance Units or Performance Shares, as applicable, will be forfeited to the Company, and, subject to Section 3, again will be available for grant under the Plan.

(h) Voting Rights, Dividend Equivalents and Distributions . Participants shall have no voting rights with respect to Shares represented by Performance Units or Performance Shares until the date of the issuance of such Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Administrator, in its discretion, may provide in the Award Agreement evidencing any Award of Performance Shares that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Shares having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Performance Shares as of the date of payment of such cash dividends on Shares. The number of additional Performance Shares (rounded to the nearest whole number) to be so credited shall be determined by dividing (i) the amount of cash dividends paid on such date with respect to the number of Shares represented by the Performance Shares previously credited to the Participant by (ii) the Fair Market Value per Share on such date. Such additional Performance Shares shall be subject to the same terms and conditions, including but not limited to vesting conditions, and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Performance Shares originally subject to the Award of Performance Shares. Settlement of Dividend Equivalents may be made in cash, Shares, or a combination thereof as determined by the Administrator, and may be paid on the same basis as settlement of the related Performance Share. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in Shares or any other adjustment made upon a change in the capital structure of the Company as described in Section 15 appropriate adjustments shall be made in the Participant’s Award of Performance Shares so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the Shares issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same vesting conditions as are applicable to the Award.

12. Performance Bonus Awards .

(a) Grant of Performance Bonus Awards . Subject to the terms and conditions of the Plan, Performance Bonus Awards may be granted to Employees at any time and from time to time, as will be determined by the Administrator, in its sole discretion, in the form of a cash bonus payable upon the attainment of Performance Goals or other performance objectives that are established by the Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator.

(b) Subject to Section 6 and the other terms and conditions of the Plan, the Administrator will have complete discretion to determine the amount of the cash bonus that may be earned under a Performance Bonus Award.

13. Leaves of Absence/Transfer Between Locations . Unless the Administrator provides otherwise or as otherwise required by Applicable Law, vesting of Awards granted hereunder will be suspended during any unpaid personal leave of absence other than a Company-approved sabbatical, such that vesting shall cease on the first day of any such unpaid personal leave of absence and shall only recommence upon return to active service. A Participant will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary.

14. Transferability of Awards .

(a) Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant (or the Participant's guardian or legal representative). If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate. Notwithstanding anything to the contrary in the Plan, in no event will the Administrator have the right to determine and implement the terms and conditions of any Award Transfer Program without stockholder approval.

15. Adjustments; Dissolution or Liquidation; Merger or Change in Control .

(a) Adjustments . In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property, but excepting normal cash dividends), recapitalization, stock split, reverse stock split, reorganization, reincorporation, reclassification, merger, consolidation, split-up, split-off, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will equitably adjust the number and class of shares of stock that may be delivered under the Plan and the number, class, and price of shares of stock covered by each outstanding Award, the numerical Share limits in Section 3 of the Plan and the per person numerical Share limits in Section 6. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number. Any fractional share resulting from an adjustment pursuant to this Section 15(a) shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award.

(b) Dissolution or Liquidation . In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised (with respect to an Option or SAR) or vested (with respect to an Award other than an Option or SAR), an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control . In the event of a merger of the Company with or into another corporation or other entity or a Change in Control, each outstanding Award will be treated as the Administrator determines (subject to the provisions of the following paragraph), including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, unless determined otherwise by the Administrator, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed or substituted in the event of a Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 15(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

16. Deferrals . The Administrator, in its sole discretion, may permit a Participant to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award. Any such deferral elections shall be subject to such rules and

procedures as shall be determined by the Administrator in its sole discretion and, unless otherwise expressly determined by the Administrator, shall comply with the requirements of Section 409A.

17. Tax .

(a) Withholding Requirements . Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any Tax Obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy all Tax Obligations.

(b) Withholding Arrangements . The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may designate the method or methods by which a Participant may satisfy such Tax Obligations. As determined by the Administrator in its discretion from time to time, these methods may include one or more of the following (A) paying cash, (B) having the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the amount required or permitted by the Administrator to be withheld or remitted, (C) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required or permitted by the Administrator to be withheld or remitted, (d) selling a sufficient number of Shares otherwise deliverable to the Participant through such means as the Administrator may determine in its sole discretion (whether through a broker or otherwise) equal to the Tax Obligations required or permitted by the Administrator to be withheld or remitted, (e) retaining from salary or other amounts payable to the Participant cash having a sufficient value to satisfy the Tax Obligations, or (f) any other means which the Administrator, in its sole discretion, determines to both comply with Applicable Laws, and to be consistent with the purposes of the Plan. The amount of Tax Obligations will be deemed to include any amount that the Administrator agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant or the Company, as applicable, with respect to the Award on the date that the amount of tax or social insurance liability to be withheld or remitted is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date that the Tax Obligations are required to be withheld.

(c) Compliance with Section 409A . Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A, except as otherwise determined in the sole discretion of the Administrator. Each payment or benefit under this Plan and under each Award Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. The Plan, each Award and each Award Agreement under the Plan is intended to be exempt from or otherwise meet the requirements of Section 409A and will be construed and interpreted, including but not limited to with respect to ambiguities or ambiguous terms, in accordance with such intent, except as otherwise specifically determined in the sole discretion of the Administrator. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Section 409A the Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A. Notwithstanding any contrary provision of the Plan, in no event will the Company be obligated to pay or reimburse the Participant (or any permitted transferee) for any tax or other cost under or in connection with Section 409A.

18. No Effect on Employment or Service . Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

19. Date of Grant . The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

20. Term of Plan . The Plan originally became effective on July 10, 2014 and will continue in effect for a term of ten (10) years from such date unless terminated earlier under Section 21 of the Plan.

21. Amendment and Termination of the Plan .

(a) Amendment and Termination . The Administrator may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval . The Company will obtain stockholder approval of any Plan amendment to the extent that the Administrator (in its discretion) determines such approval is necessary to comply with Applicable Laws.

(c) Effect of Amendment or Termination . No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

22. Construction . Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

23. Severability . If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to

make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

24. Fractional Shares . The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

25. Unfunded Obligation . Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Administrator or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

26. Conditions Upon Issuance of Shares .

(a) Legal Compliance . The granting of Awards and the issuance and delivery of Shares under the Plan shall be subject to all Applicable Laws, and to such approvals by any governmental agencies or national securities exchanges as may be required. Shares will not be issued pursuant to the exercise or vesting of an Award unless the exercise or vesting of such Award and the issuance and delivery of such Shares will comply with Applicable Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations . As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

27. Inability to Obtain Authority . The inability of the Company to obtain authority from any regulatory body having jurisdiction or to complete or comply with the requirements of any registration or other qualification of the Shares under any state, federal or foreign law or under the rules and regulations of the Securities and Exchange Commission, the stock exchange on which Shares of the same class are then listed, or any other governmental or regulatory body, which authority, registration, qualification or rule compliance is deemed by the Company's counsel to be necessary or advisable for the issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority, registration, qualification or rule compliance will not have been obtained. The Company will use its reasonable good faith efforts (as determined by the

Administrator) to obtain any approval, authority, registration, qualification or rule compliance described in this Section 27.

28. Forfeiture Events . The Administrator may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, fraud, breach of a fiduciary duty, restatement of financial statements as a result of fraud or willful errors or omissions, termination of employment for cause, violation of material Company or Subsidiary policies, breach of non-competition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company or its Subsidiaries. The Administrator may also require the application of this Section with respect to any Award previously granted to a Participant even without any specified terms being included in any applicable Award Agreement to the extent required under Applicable Laws.

salesforce.com, inc.

ID: [ ]

The Landmark@One
Market Street

Suite 300

San Francisco, CA 94105

Notice of Grant of Stock Options and Terms and Conditions of Stock Options (together, with the exhibits and appendices thereto, the "Agreement")

FIRST_NAME: LAST_NAME:	**Award Number:**	**[Number]**
[ADDRESS]	**Plan:**	**2014 Inducement Equity Incentive Plan, as amended and restated**
[ADDRESS LINE 2]	**ID:**	**[ID]**
[ADDRESS LINE 2]		

Effective [GRANT DATE] (the "Grant Date") you have been granted a Nonstatutory Stock Option to purchase [NUMBER] shares of salesforce.com, inc. (the "Company") common stock (the "Option") at an exercise price per share of $[XX.XX]. The Option is intended as a material inducement to your becoming an Employee.

The total price of the Shares subject to the Option is $[XX.XX].

[Vest Date: [INSERT IF/AS APPLICABLE]]

Vesting Schedule/Expiration: Subject to any acceleration provisions contained in the Plan and/or this Agreement [and/or [INSERT REFERENCE TO CONTRACT(S) CONTAINING ACCELERATION PROVISIONS, E.G., AS APPROPRIATE: the Change of Control and Retention Agreement between you and the Company dated [DATE]; and/or the offer letter between you and the Company (or the Parent or Subsidiary of the Company employing you) dated [DATE]; and/ or the letter from the Company dated [DATE] detailing the Company's intention to grant stock options to you; and/or any Change of Control and Retention Agreement that has been or is, after the date of this Agreement, entered into between you and the Company], the Option will vest and remain exercisable thereafter based upon the following parameters as more fully described in the Terms and Conditions of Stock Options attached hereto (subject to earlier termination as provided in paragraphs 2 and 3 of the Terms and Conditions of Stock Options):

Shares	Vest Date	Full Vest	Expiration
[#]	[On Vest Date]	[XX/XX/XX]	[XX/XX/XX]
[#]	[Monthly]	[XX/XX/XX]	[XX/XX/XX]

[To be added as appropriate: The Option granted hereunder is subject to the terms and conditions of any [Change of Control and Retention Agreement between you and the Company (whether entered into before, on or after the Grant Date) [ADD OTHER CONTRACTS AS APPROPRIATE, *e.g., as appropriate* : and/or the offer letter between you and the Company (or the Parent or Subsidiary of the Company employing you) dated [DATE]; and/or the letter from the Company dated [DATE] detailing the Company's intention to grant stock options to you. Further, the first sentence of paragraph 24 of this Agreement shall be deemed to read, "This Agreement, along with the [Change of Control and Retention Agreement][ADD OTHER CONTRACTS AS APPROPRIATE] between Participant and the Company, constitutes the entire understanding of the parties on the subjects covered."]

By signifying my acceptance below (either by my electronic or written signature), I agree that the Option is granted under and governed by the terms and conditions of the 2014 Inducement Equity Incentive Plan, as amended and restated (the "Plan") and the Agreement (including this Notice of Grant of Stock Options, the Terms and Conditions of Stock Options and any exhibits or appendices thereto), all of which are attached and made a part of this package. I understand that additional important terms and conditions, including regarding vesting and forfeiture, of this Option are contained in the rest of the Agreement and in the Plan.

I understand that there may be adverse tax consequences as a result of my exercise or disposition of the Shares subject to my Option. I represent that the Company has urged me to consult with a tax consultant, that I have had the opportunity to consult with any tax consultants that I deem advisable in connection with the receipt or disposition of the Shares, and that I am not relying on the Company for any tax advice. I agree to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and this Agreement. I agree to notify the Company upon any change in the residence address indicated for me above.

By clicking the "ACCEPT" button below, you agree to the following: " **This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement** ."

Be sure to retain a copy of your returned electronically signed Agreement. You may obtain a paper copy at any time and at the Company's expense by requesting one from Global Equity Plan Services Department (see paragraph 13 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Global Equity Plan Services Department.

SALESFORCE.COM, INC.

STOCK OPTION AGREEMENT

TERMS AND CONDITIONS OF STOCK OPTIONS

Grant #

1. Grant of Option . The Company hereby grants to the individual named in the Notice of Grant (the "Participant") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant of Stock Options (the "Notice of Grant"), at the exercise price per Share set forth in the Notice of Grant (the "Exercise Price"), subject to all of the terms and conditions in this Agreement and the salesforce.com, Inc. 2014 Inducement Equity Incentive Plan, as amended and restated (the "Plan"), which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan will have the same defined meanings in this Stock Option Agreement (the "Agreement"), which includes the Notice of Grant and Terms and Conditions of Stock Option Grant and all exhibits to the Agreement. This Option is a Nonstatutory Stock Option that is not intended to qualify as an Incentive Stock Option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Vesting Schedule . Except as otherwise provided in paragraph 4 and subject to any acceleration provisions contained in the Plan or set forth in this Agreement, the Option awarded by this Agreement will vest and be exercisable, in whole or in part, in accordance with the vesting provisions set forth in the Notice of Grant. Shares scheduled to vest on a certain date or upon the occurrence of a certain condition will not vest in accordance with any of the provisions of this Agreement, unless Participant will have been continuously a Service Provider from the Grant Date until the date such vesting occurs. Notwithstanding anything in this paragraph 2 to the contrary, and except as otherwise provided by the Administrator or as required by Applicable Laws, vesting of the Option shall be suspended during any unpaid personal leave of absence other than a Company-approved sabbatical and other than military leave such that vesting shall cease on the first day of any such unpaid personal leave of absence and shall only recommence upon return to active service; provided, however, that no vesting credit will be awarded for the time vesting has been suspended during such leave of absence.

3. Termination Period .

(a) Generally . The Option will be exercisable until 5:00 pm local Pacific Time on the ninetieth (90th) day after the date Participant ceases to be a Service Provider for reasons other than Cause or Participant's death or Disability. In the event Participant ceases to be a Service Provider due to Participant's death or Disability, the Option will be exercisable until the close of business on the one (1) year anniversary of the date Participant ceases to be a Service Provider. Participant's status as a Service Provider shall be deemed to have terminated on account of death if Participant dies within ninety (90) days after the date Participant ceases to be a Service Provider. In the event Participant ceases to be a Service Provider due to Cause, the Option will terminate and cease to be exercisable immediately upon the date Participant ceases to be a Service Provider. For purposes of the Option, Participant's engagement as a Service Provider will be considered terminated as of the date that Participant is no longer actively providing services to the Company or any Participating Company (regardless of the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or engagement agreement, if any), and, unless otherwise expressly provided in this Agreement (including by reference in the Notice of Grant to other arrangements or contracts) or determined by the Administrator, (i) Participant's right to vest in the Option under the Plan, if any, will terminate as of such date and will not be extended by any notice period (*e.g.* , Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is a Service Provider or Participant's employment or engagement agreement, if any, unless Participant is providing bona fide services during such time), and (ii) the period (if any) during which Participant may exercise the Option after such termination of Participant's engagement as a Service Provider will commence on the date Participant ceases to actively provide services and will not be extended by any notice period mandated under employment laws in the jurisdiction where Participant is employed or terms of Participant's employment or engagement agreement, if any; the Company shall have the discretion to determine when Participant is no longer actively providing services for purposes of the Option (including whether Participant may still be considered to be providing services while on a leave of absence).

(b) Extension if Exercise Prevented by Law . Notwithstanding the foregoing, if (i) Participant ceases to be a Service Provider for reasons other than as a result of Cause and (ii) the exercise of the Option within the applicable time periods set forth in paragraph 3(a) is prevented by Section 27 of the Plan, the Option shall remain exercisable until the close of business of the ninetieth (90th) day after the date Participant is notified by the Company that the Option is exercisable, but in any event no later than the expiration of the term of the Option as set forth in the Notice of Grant.

(c) Extension if Participant Subject to Section 16(b) . Notwithstanding the foregoing, if (i) Participant ceases to be a Service Provider for reasons other than as a result of Cause and (ii) a sale within the applicable time periods set forth in paragraph 3(a) of Shares acquired upon the exercise of the Option would subject Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (x) the close of business of the tenth (10th) day following the date on which a sale of such Shares by Participant would no longer be subject to such suit or (y) the expiration of the term of such Option as set forth in the Notice of Grant.

(d) Limitations . Notwithstanding anything in Sections 3(a), (b), or (c) to the contrary, in no event may the Option be exercised after the close business on the expiration of the term of the Option as set forth in the Notice of Grant, and the Option may be subject to earlier termination as provided in Sections 15(b) and (c) of the Plan.

4. Administrator Discretion . The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Option at any time, subject to the terms of the Plan. If so accelerated, such Option will be considered as having vested as of the date specified by the Administrator.

5. Exercise of Option .

(a) Right to Exercise . This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Agreement.

(b) Method of Exercise . This Option is exercisable in a manner and pursuant to such procedures as the Company may determine, which may include (but is not limited to) by delivery of an exercise notice, in the form attached as Exhibit C (the "Exercise Notice"), which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by Participant and delivered to the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares together and of any Tax Obligations. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price. This Option may not be exercised for a fraction of a Share and the Company will not issue fractional Shares upon exercise of this Option.

6. Method of Payment . Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of Participant:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program (whether through a broker, net exercise program or otherwise) adopted by the Company in connection with the Plan;

(d) if Participant is a U.S. Employee, surrender of other Shares which have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares, provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company; or

(e) by such other consideration as may be approved by the Administrator from time to time to the extent permitted by Applicable Laws.

7. Tax Obligations.

(a) Responsibility for Taxes. Participant acknowledges that, regardless of any action taken by the Company or, if different, the Participating Company employing or retaining Participant (the “Employer”), the ultimate liability for Tax Obligations is and remains Participant’s responsibility and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the Option, including, but not limited to, the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends or other distributions, and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate Participant’s liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Obligations in more than one jurisdiction. If Participant fails to make satisfactory arrangements for the payment of any required Tax Obligations hereunder at the time of the applicable taxable event, Participant acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares or the proceeds from the sale of the Shares.

(b) Withholding of Taxes. Prior to the relevant taxable or tax withholding event, as applicable, Participant agrees to make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax Obligations. In this regard, Participant authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax Obligations by withholding from proceeds of the sale of Shares acquired at exercise of the Option either through a voluntary sale or through a mandatory sale arranged by the Company (on Participant’s behalf pursuant to this authorization) without further consent. Alternatively, the Company, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit or require Participant to satisfy his or her obligations for Tax Obligations, in whole or in part (without limitation) by delivery of cash or check to the Company or the Employer or by means of withholding from Participant’s wages or other cash compensation paid to Participant by the Company and/or the Employer. Finally, to the extent determined appropriate by the Administrator in its discretion, the Company will have the right (but not the obligation) to satisfy any Tax Obligations by reducing the number of Shares otherwise deliverable to Participant. For avoidance of doubt, if Participant is a non-U.S. employee, payment of Tax Obligations may not be effectuated by surrender of other Shares with a Fair Market Value equal to the amount of any Tax Obligations. Further, depending on the withholding method, the Company may withhold or account for Tax Obligations by considering maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock equivalent; provided, however, that where the application of such maximum rates would, in the Company’s determination, result in adverse accounting consequences to the Company, the Company shall withhold only amounts sufficient to meet the minimum statutory Tax Obligations required to be withheld or remitted with respect to the Option.

(c) Code Section 409A. Under Section 409A, an option that was granted with a per Share Exercise Price that is determined by the Internal Revenue Service (the “IRS”) to be less than the fair market value of a Share on the Grant Date (a “Discount Option”) may be considered “deferred compensation.” For a Participant who is or becomes subject to U.S. Federal income taxation, a Discount Option may result in (i) income recognition by Participant prior to the exercise of the option, (ii) an additional twenty percent (20%) federal income tax, and (iii) potential penalty and interest charges. The Discount Option may also result in additional state income, penalty and interest charges to Participant. Participant acknowledges that the Company cannot and has not guaranteed that the IRS will agree that the per Share Exercise Price of this Option equals or exceeds the Fair Market Value of a Share on the Grant Date in a later examination. Participant agrees that if the IRS determines that the Option was granted with a per Share exercise price that was less than the Fair Market Value of a Share on the Grant Date, Participant will be solely responsible for Participant’s costs related to such a determination, if any.

8. Rights as Stockholder. Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery,

Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

9. No Guarantee of Continued Service . PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE OPTION PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE EMPLOYER) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH ANY RIGHT OF THE PARTICIPANT OR OF THE COMPANY (OR THE EMPLOYER) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

10. Nature of Grant . In accepting the Option, Participant acknowledges, understands and agrees that:

(a) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted in the past;

(b) all decisions with respect to future option or other grants, if any, will be at the sole discretion of the Company;

(c) Participant is voluntarily participating in the Plan;

(d) the Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation;

(e) the Option and Shares acquired under the Plan and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(f) the future value of the Shares underlying the Option is unknown, indeterminable, and cannot be predicted;

(g) if the Shares underlying the Option do not increase in value, the Option will have no value;

(h) if Participant exercises the Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price;

(i) unless otherwise provided in the Plan or by the Company in its discretion, the Option and the benefits evidenced by this Agreement do not create any entitlement to have the Option or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(j) the following provisions apply only if Participant is providing services outside the United States:

(i) the Option and the Shares subject to the Option are not part of normal or expected compensation or salary for any purpose;

(ii) none of the Company, the Employer or any Participating Company shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Option or of any amounts due to Participant pursuant to the exercise of the Option or the subsequent sale of any Shares acquired upon exercise; and

(iii) no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from the termination of Participant's engagement as a Service Provider (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or engagement agreement, if any), and in consideration of the grant of the Option to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Employer, the Company or any Participating Company, waives his or her ability, if any, to bring any such claim, and releases the Employer, the Company or any Participating Company from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim.

11. No Advice Regarding Grant . The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

12. **Data Privacy** . ***Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and any Participating Company for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.***

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all options or any other entitlement to stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to a stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipient's country of operation (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purposes of implementing, administering and managing Participant's participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands that if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her engagement as a Service Provider and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant options or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

13. Address for Notices . Any notice to be given to the Company under the terms of this Agreement will be addressed in care of Global Equity Plan Services Department, at salesforce.com, inc., The Landmark Bldg., One Market Street, Suite 300, San Francisco, CA 94105, or at such other address as the Company may hereafter designate in writing.

14. Non-Transferability of Option . This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Participant only by Participant.

15. Binding Agreement . Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares of Stock . If at any time the Company determines, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations under the rulings or regulations of the United States Securities and Exchange Commission or any other governmental regulatory body or the clearance, consent or approval of the United States Securities and Exchange Commission or any other governmental regulatory authority is necessary or desirable as a condition to the purchase by, or issuance of Shares to, Participant (or his or her estate) hereunder, such purchase or issuance will not occur unless and until such listing, registration, qualification, rule compliance, clearance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Assuming such compliance, for income tax purposes the exercised Shares will be considered transferred to Participant on the date the Option is exercised with respect to such exercised Shares.

17. Plan Governs. This Agreement and the Option granted hereunder are subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Shares subject to the Option have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to Options awarded under the Plan or future options that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. Language. If Participant has received this Agreement, or any other document related to the Option and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

21. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

22. Agreement Severable. In the event that any provision in this Agreement is held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

23. Governing Law and Venue. This Agreement will be governed by the laws of California, without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California **,** and agree that such litigation will be conducted in the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Option is made and/or to be performed.

24. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to amend this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection with the Option, or if necessary to comply with any applicable laws in the jurisdiction in which Participant resides and/or is rendering services.

25. Amendment, Suspension or Termination of the Plan. By accepting this Award, Participant expressly warrants that he or she has received an "Option" under the Plan, and has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time to the extent permitted by the Plan.

26. Waiver. Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.

27. Legends. The Company may at any time place legends referencing restrictions imposed by any Applicable Laws on all certificates representing Shares subject to the provisions of this Agreement.

28. Country Addendum. Notwithstanding any provisions in this Agreement, the Option grant shall be subject to any special terms and conditions for Participant's country set forth in the Country Addendum attached to this Agreement. Moreover, if Participant relocates to one of the countries included in the Country Addendum, the special terms and conditions for such country will apply to Participant to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Country Addendum constitutes part of this Agreement.

salesforce.com, inc.

ID: [ ]

The Landmark@One
Market Street

Suite 300

San Francisco, CA 94105

Notice of Grant of Restricted Stock Units and Terms and Conditions of Restricted Stock Units (together, with the exhibits and appendices thereto, the "Agreement")

FIRST_NAME: LAST_NAME:	**Award Number:**	**[Number]**
[ADDRESS]	**Plan:**	**2014 Inducement Equity Incentive Plan, as amended and restated**
[ADDRESS LINE 2]	**ID:**	**[ID]**
[ADDRESS LINE 2]		

Effective [GRANT DATE] (the "Grant Date") you have been granted an award of [NUMBER] Restricted Stock Units (the "Award"). These units are restricted until the vest date(s), at which time, subject to satisfaction of the applicable requirements set forth in the Plan and the Agreement, you will receive Shares of salesforce.com, inc. (the Company) common stock. This Award is intended as a material inducement to your becoming an Employee.

[Vesting Commencement Date: [INSERT IF/AS APPLICABLE]]

Vesting Schedule: Subject to any acceleration provisions contained in the Plan and/or this Agreement [and/or [INSERT REFERENCE TO CONTRACT(S) CONTAINING ACCELERATION PROVISIONS, E.G., AS APPROPRIATE: the Change of Control and Retention Agreement between you and the Company dated [DATE]; and/or the offer letter between you and the Company (or the Parent or Subsidiary of the Company employing you) dated [DATE]; and/or the letter from the Company dated [DATE] detailing the Company's intention to grant restricted stock units to you; and/or any Change of Control and Retention Agreement that has been or is, after the date of this Agreement, entered into between you and the Company]: [INSERT VESTING SCHEDULE, E.G.: Twenty-five percent (25%) of the Restricted Stock Units shall vest on the first anniversary of the Grant Date and one sixteenth ($1/16^{th}$) of the Restricted Stock Units shall vest quarterly thereafter, subject to your remaining a Service Provider through each such vesting date.]

[To be added as appropriate: The Restricted Stock Units granted hereunder are subject to the terms and conditions of any [Change of Control and Retention Agreement between you and the Company (whether entered into before, on or after the Grant Date) [ADD OTHER CONTRACTS AS APPROPRIATE, e.g., as appropriate: and/or the offer letter between you and the Company (or the Parent or Subsidiary of the Company employing you) dated [DATE]; and/or the letter from the Company dated [DATE] detailing the Company's intention to grant restricted stock units to you. Further, the first sentence of paragraph 26 of this Restricted Stock Unit Agreement shall be deemed to read, "This Agreement, along with the [Change of Control and Retention Agreement] [ADD OTHER CONTRACTS AS APPROPRIATE] between Participant and the Company, constitutes the entire understanding of the parties on the subjects covered."]

By signifying my acceptance below (either by my electronic or written signature), I agree that the Award is granted under and governed by the terms and conditions of the 2014 Inducement Equity Incentive Plan, as amended and restated (the "Plan") and the Agreement (including this Notice of Grant of Restricted Stock Units, the Terms and Conditions of Restricted Stock Units and any exhibits or appendices thereto), all of which are attached and made a part of this package.

I understand that there may be adverse tax consequences as a result of my receipt or disposition of the Shares issued as payment for the vested Restricted Stock Units. I represent that the Company has urged me to consult with a tax consultant, that I have had the opportunity to consult with any tax consultants that I deem advisable in connection with the receipt or disposition of the Shares, and that I am not relying on the Company for any tax advice. I agree to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and this Agreement. I agree to notify the Company upon any change in the residence address indicated for me above.

By clicking the "ACCEPT" button below, you agree to the following: " **This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement** ."

Be sure to retain a copy of your returned electronically signed Agreement. You may obtain a paper copy at any time and at the Company's expense by requesting one from Global Equity Plan Services Department (see paragraph 14 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Global Equity Plan Services Department.

SALESFORCE.COM, INC.

RESTRICTED STOCK UNIT AGREEMENT

TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS

Grant #

1. Grant . The Company hereby grants to the individual (the "Participant") named in the Notice of Grant of Restricted Stock Units (the "Grant Notice") to which these Terms and Conditions of Restricted Stock Units (together with the Grant Notice and attachments to each document, the "Agreement") are attached, an Award of Restricted Stock Units upon the terms and conditions set forth in this Agreement and the salesforce.com, inc. 2014 Inducement Equity Incentive Plan, as amended and restated (the "Plan"), which is incorporated herein by reference.

2. Company's Obligation to Pay . For each Restricted Stock Unit that vests, Participant will receive one Share. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 or 4, Participant will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company. Any Restricted Stock Units that vest in accordance with paragraphs 3 or 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in whole Shares, subject to Participant satisfying any obligations for Tax Obligations. Payment of any vested Restricted Stock Units shall be made in whole shares of Shares only.

3. Vesting Schedule . Except as otherwise provided in paragraph 4 of this Agreement, and subject to paragraph 6, the Restricted Stock Units awarded by this Agreement shall vest in accordance with the vesting schedule set forth in the Grant Notice, provided that Participant has continuously remained a Service Provider from the Grant Date through the relevant vesting date. Notwithstanding anything in this paragraph 3 to the contrary, and except as otherwise provided by the Administrator or as required by Applicable Law, vesting of the Restricted Stock Units shall be suspended during any unpaid personal leave of absence other than a Company-approved sabbatical and other than military leave such that vesting shall cease on the first day of any such unpaid personal leave of absence and shall only recommence upon return to active service; provided, however, that no vesting credit will be awarded for the time vesting has been suspended during such leave of absence.

4. Administrator Discretion . The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Restricted Stock Units at any time, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Administrator. Subject to the provisions of this paragraph 4, if the Administrator, in its discretion, accelerates the vesting of all or a portion of any unvested Restricted Stock Units, the payment of such accelerated Restricted Stock Units shall be made as soon as practicable upon or following the accelerated vesting date; provided, however, that if Participant is subject to a Change of Control and Retention Agreement or other agreement with or authorized by the Company (or with its Parent or one of its Subsidiaries) providing for acceleration of vesting of the Restricted Stock Units, in each case entered into prior to the Grant Date, and such agreement provides different timing of payment for such accelerated Restricted Stock Units, the timing in such agreement shall control (provided that, if Participant is a U.S. taxpayer, such timing is compliant with Section 409A or results in such accelerated Restricted Stock Units being exempt from Section 409A, and subject to any delay required below by this paragraph 4; otherwise, this paragraph 4 shall control). Notwithstanding anything in the Plan, this Agreement or any other agreement (whether entered into before, on or after the Grant Date) to the contrary, if the Administrator, in its discretion, following the Grant Date provides for the further acceleration of vesting of any of the Restricted Stock Units subject to this Award, if Participant is a U.S. taxpayer, the payment of such accelerated

Restricted Stock Units may only be made at a time or times that would result in such Restricted Stock Units to be exempt from or complying with the requirements of Section 409A. The prior sentence may be superseded in a future agreement or amendment to this Agreement only by direct and specific reference to such sentence.

Notwithstanding anything in the Plan, this Agreement or any other agreement (whether entered into before, on or after the Grant Date) to the contrary, if the vesting of the balance, or some lesser portion of the balance, of the Restricted Stock Units is accelerated in connection with Participant's termination as a Service Provider (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death **,** and if (x) Participant is a U.S. taxpayer and a "specified employee" within the meaning of Section 409A at the time of such termination as a Service Provider and (y) the payment of such accelerated Restricted Stock Units will result in the imposition of additional tax under Section 409A if paid to Participant on or within the six (6) month period following Participant's termination as a Service Provider, then the payment of such accelerated Restricted Stock Units will not be made until the date six (6) months and one (1) day following the date of Participant's termination as a Service Provider, unless Participant dies following his or her termination as a Service Provider, in which case, the Restricted Stock Units will be paid in Shares to Participant's estate as soon as practicable following his or her death. It is the intent of this Agreement that it and all payments and benefits to U.S. taxpayers hereunder be exempt from, or comply with, the requirements of Section 409A so that none of the Restricted Stock Units provided under this Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to be so exempt or so comply. Each payment payable to a U.S. taxpayer under this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2).

5. Payment after Vesting . The payment of Shares that vest pursuant to this Agreement shall in all cases be made at a time or in a manner that is exempt from, or complies with, Section 409A, unless otherwise determined by the Administrator if Participant is not a U.S. taxpayer. The prior sentence may be superseded in a future agreement or amendment to this Agreement only by direct and specific reference to such sentence. Any Restricted Stock Units that vest in accordance with paragraph 3 will be paid to Participant (or in the event of Participant's death, to his or her estate) as soon as practicable following the date of vesting, subject to paragraph 8. Any Restricted Stock Units that vest in accordance with paragraph 4 will be paid to Participant (or in the event of Participant's death, to his or her estate) in accordance with the provisions of such paragraph, subject to paragraph 8. In no event will Participant be permitted, directly or indirectly, to specify the taxable year of the payment of any Restricted Stock Units payable under this Agreement.

6. Forfeiture upon Termination of Status as a Service Provider . Notwithstanding any contrary provision of this Agreement, the balance of the Restricted Stock Units that have not vested as of the time of Participant's termination as a Service Provider for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company, and Participant's right to acquire any Shares hereunder will immediately terminate. The date of Participant's termination as a Service Provider is detailed in paragraph 11(g).

7. Death of Participant . Any distribution or delivery to be made to Participant under this Agreement will, if Participant is then deceased, be made to the administrator or executor of Participant's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

8. Tax Obligations .

(a) Responsibility for Taxes . Participant acknowledges that, regardless of any action taken by the Company or, if different, the Participating Company employing or retaining Participant (the "Employer"), the ultimate liability for Tax Obligations is and remains Participant's responsibility and may exceed the amount actually withheld by the Company or the Employer. Participant further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax Obligations in connection with any aspect of the Restricted Stock Units, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Units, the subsequent sale of Shares acquired pursuant to such settlement and the receipt of any dividends or other distributions, and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Units to reduce or eliminate Participant's liability for Tax Obligations or achieve any particular tax result. Further, if Participant is subject to Tax Obligations in more than one jurisdiction between the Grant Date and the date of any relevant taxable or tax withholding event, as applicable, Participant acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax Obligations in more than one jurisdiction. If Participant fails to make satisfactory arrangements for the payment of any required Tax Obligations hereunder at the time of the applicable taxable event, Participant acknowledges and agrees that the Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares.

(b) Withholding of Taxes . When the Shares are issued as payment for vested Restricted Stock Units, Participant generally will recognize immediate U.S. taxable income if Participant is a U.S. taxpayer. If Participant is a non-U.S. taxpayer, Participant will be subject to applicable taxes in his or her jurisdiction. Participant hereby agrees to make, prior to vesting and/or settlement of the Restricted Stock Units, adequate provision (in a manner acceptable to the Company, which may include by check, wire transfer, by withholding from Participant's wages or other cash compensation payable to the Participant by the Company or the Employer or by means of a Cashless Exercise) for any sums required to satisfy the Tax Obligations arising in connection with Participant's Restricted Stock Units (including Shares thereunder). If Participant fails to make such satisfactory arrangements, Participant hereby expressly consents to pay by Cashless Exercise any Tax Obligations. In addition, Participant hereby expressly confers on the Company a power of attorney to irrevocably instruct a broker to assign to the Company the proceeds of the sale of that number of Shares necessary to pay any Tax Obligations. For this purpose, a "Cashless Exercise" means the delivery of a properly executed tax withholding notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale with respect to some or all of the Shares to be issued as payment for vested Restricted Stock Units pursuant to a program or procedure approved by the Company. The Company reserves, at any and all times, the right in the Company's sole and absolute discretion, to establish, decline to approve or terminate any such program or procedure, including with respect to Participant notwithstanding that such program or procedures may be available to others. Notwithstanding the foregoing, if Participant fails to deliver a properly executed tax withholding notice to the Company in a form acceptable to the Company, a "Cashless Exercise" means the delivery by the Company of irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of the sale of that number of Shares necessary to pay any Tax Obligations. Finally, depending on the withholding method, the Company may withhold or account for Tax Obligations by considering maximum applicable rates, in which case Participant will receive a refund of any over-withheld amount in cash and will have no entitlement to the Common Stock equivalent; provided, however, that where the application of such maximum rates would, in the Company's determination, result in adverse accounting consequences to the Company, the Company shall withhold only amounts sufficient to meet the minimum statutory Tax Obligations required to be withheld or remitted with respect to the Restricted Stock Units.

9. Rights as Stockholder . Neither Participant nor any person claiming under or through Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, Participant will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. **No Guarantee of Continued Service . PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE RESTRICTED STOCK UNITS PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (OR THE EMPLOYER) AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OF RESTRICTED STOCK UNITS OR ACQUIRING SHARES HEREUNDER. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH ANY RIGHT OF PARTICIPANT OR OF THE COMPANY (OR THE EMPLOYER) TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.**

11. Nature of Grant . In accepting the grant, Participant acknowledges, understands and agrees that:

(a) the grant of the Restricted Stock Units is voluntary and occasional and does not create any contractual or other right to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been granted in the past;

(b) all decisions with respect to future Restricted Stock Units or other grants, if any, will be at the sole discretion of the Company;

(c) Participant is voluntarily participating in the Plan;

(d) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(e) the Restricted Stock Units and the Shares subject to the Restricted Stock Units, and the income and value of same, are not part of normal or expected compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments;

(f) the future value of the underlying Shares is unknown, indeterminable and cannot be predicted;

(g) for purposes of the Restricted Stock Units, Participant's status as a Service Provider will be considered terminated as of the date Participant is no longer actively providing services to the Company or any Participating Company (regardless of the reason for such termination and whether or not later to be found invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any), and unless otherwise expressly provided in this Agreement (including by reference in the Notice of Grant to other arrangements or contracts) or determined by the Administrator, Participant's right to vest in the Restricted Stock Units under the Plan, if any, will terminate as of such date and will not be extended by any notice period (*e.g.* , Participant's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any, unless Participant is providing bona fide services during such time); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively providing services for purposes of the Restricted Stock Units grant (including whether Participant may still be considered to be providing services while on a leave of absence);

(h) unless otherwise provided in the Plan or by the Company in its discretion, the Restricted Stock Units and the benefits evidenced by this Agreement do not create any entitlement to have the Restricted Stock Units or any such benefits transferred to, or assumed by, another company nor be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the Shares; and

(i) the following provisions apply only if Participant is providing services outside the United States:

i. the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not part of normal or expected compensation or salary for any purpose;

ii. Participant acknowledges and agrees that none of the Company, the Employer or any Participating Company shall be liable for any foreign exchange rate fluctuation between Participant's local currency and the United States Dollar that may affect the value of the Restricted Stock Units or of any amounts due to Participant pursuant to the settlement of the Restricted Stock Units or the subsequent sale of any Shares acquired upon settlement; and

iii. no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from the termination of Participant's status as a Service Provider (for any reason whatsoever whether or not later found to be invalid or in breach of employment laws in the jurisdiction where Participant is a Service Provider or the terms of Participant's employment or service agreement, if any), and in consideration of the grant of the Restricted Stock Units to which Participant is otherwise not entitled, Participant irrevocably agrees never to institute any claim against the Company, any Participating Company or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company, any Participating Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, Participant shall be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim.

12. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan, or Participant's acquisition or sale of the underlying Shares. Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

13. **Data Privacy**. ***Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of Participant's personal data as described in this Agreement and any other Restricted Stock Unit grant materials by and among, as applicable, the Employer, the Company and any Participating Company for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.***

Participant understands that the Company and the Employer may hold certain personal information about Participant, including, but not limited to, Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any Shares or directorships held in the Company, details of all Restricted Stock Units or any other entitlement to Shares awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor ("Data"), for the exclusive purpose of implementing, administering and managing the Plan.

Participant understands that Data will be transferred to a stock plan service provider as may be selected by the Company in the future, which is assisting the Company with the implementation, administration and management of the Plan. Participant understands that the recipients of the Data may be located in the United States or elsewhere, and that the recipients' country of operation (e.g., the United States) may have different data privacy laws and protections than Participant's country. Participant understands that if he or she resides outside the United States, he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. Participant authorizes the Company, any stock plan service provider selected by the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing his or her participation in the Plan. Participant understands that Data will be held only as long as is necessary to implement, administer and manage Participant's participation in the Plan. Participant understands if he or she resides outside the United States, he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. Further, Participant understands that he or she is providing the consents herein on a purely voluntary basis. If Participant does not consent, or if Participant later seeks to revoke his or her consent, his or her status as a Service Provider and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing Participant's consent is that the Company would not be able to grant Participant Restricted Stock Units or other equity awards or administer or maintain such awards. Therefore, Participant understands that refusing or withdrawing his or her consent may affect Participant's ability to participate in the Plan. For more information on the consequences of Participant's refusal to consent or withdrawal of consent, Participant understands that he or she may contact his or her local human resources representative.

14. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Global Equity Plan Services Department, at salesforce.com, inc., The Landmark Bldg., One Market Street, Suite 300, San Francisco, CA 94105, or at such other address as the Company may hereafter designate in writing.

15. Grant is Not Transferable. Except to the limited extent provided in paragraph 7 above, this grant of Restricted Stock Units and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until you have been issued the Shares. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

16. Restrictions on Sale of Securities. Any sale of the Shares issued under this Agreement will be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other Applicable Laws.

17. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

18. Additional Conditions to Issuance of Certificates for Shares. If at any time the Company determines, in its discretion, that the listing, registration, qualification or rule compliance of the Shares upon any securities exchange or under any state, federal or foreign law, the tax code and related regulations or under the rulings or regulations of the United States Securities and Exchange Commission or any other governmental regulatory body or the clearance, consent or approval of the United States Securities and

Exchange Commission or any other governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to Participant (or his or her estate) hereunder, such issuance will not occur unless and until such listing, registration, qualification, rule compliance, clearance, consent or approval will have been completed, effected or obtained free of any conditions not acceptable to the Company. Subject to the terms of the Agreement and the Plan, the Company shall not be required to issue any certificate or certificates for Shares hereunder prior to the lapse of such reasonable period of time following the date of vesting of the Restricted Stock Units as the Administrator may establish from time to time for reasons of administrative convenience.

19. Plan Governs . This Agreement and the Restricted Stock Units granted hereunder are subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern. Capitalized terms used and not defined in this Agreement will have the meaning set forth in the Plan.

20. Administrator Authority . The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Restricted Stock Units have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

21. Electronic Delivery and Acceptance . The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant’s consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or a third party designated by the Company.

22. Language . If Participant has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

23. Captions . Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

24. Agreement Severable . In the event that any provision in this Agreement is held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

25. Governing Law and Venue . This Agreement will be governed by, and construed in accordance with, the laws of the state of California without giving effect to the conflict of law principles thereof. For purposes of litigating any dispute that arises under this Award of Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation will be conducted in the courts of San Francisco County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this Award of Restricted Stock Units is made and/or to be performed.

26. Modifications to the Agreement . This Agreement constitutes the entire understanding of the parties on the subjects covered. Participant expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to amend this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of Participant, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of Shares pursuant to this Award of Restricted Stock Units, or if necessary to comply with any applicable laws in the jurisdiction in which Participant resides and/or is rendering services.

27. Amendment, Suspension or Termination of the Plan . By accepting this Award, Participant expressly warrants that he or she has received an Award of Restricted Stock Units under the Plan, and that he or she has received, read and understood a description of the Plan. Participant understands that the Plan is discretionary in nature and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan.

28. Waiver . Participant acknowledges that a waiver by the Company of breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by Participant or any other Participant.

29. Country Addendum . Notwithstanding any provisions in this Agreement, the Restricted Stock Unit grant shall be subject to any special terms and conditions set forth in any appendix to this Agreement for Participant's country. Moreover, if Participant relocates to one of the countries included in the Country Addendum, the special terms and conditions for such country will apply to Participant, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Country Addendum constitutes part of this Agreement.

Exhibit 31.1

CERTIFICATION

I, Marc Benioff, certify that:

1. I have reviewed this report on Form 10-Q of salesforce.com, inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 31, 2016

/s/ MARC BENIOFF

Marc Benioff

Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Mark J. Hawkins, certify that:

1. I have reviewed this report on Form 10-Q of salesforce.com, inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 31, 2016

/s/ MARK J. HAWKINS

Mark J. Hawkins

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 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**

Based on my knowledge, I, Marc Benioff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended July 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

August 31, 2016

/s/ MARC BENIOFF

Marc Benioff

**Chairman of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)**

Based on my knowledge, I, Mark J. Hawkins, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended July 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

August 31, 2016

/s/ MARK J HAWKINS

Mark J. Hawkins

**Executive Vice President and Chief Financial Officer
(Principal Financial Officer)**