SALESFORCE COM INC
Form 10-K
March 06, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2017
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)

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

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

Securities registered pursuant to section 12(g) of the Act:
Not applicable
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.   Yes ý   No ¨
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of Act.   Yes ¨   No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ý   No ¨
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).   Yes ý   No ¨

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

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

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

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was July 29, 2016, the aggregate market value of its shares (based on a closing price of $81.80 per share) held by non-affiliates was approximately $38.5 billion. Shares of the Registrant's Common Stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant's outstanding Common Stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of January 31, 2017, there were approximately 707.5 million shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2017 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended January 31, 2017, are incorporated by reference in Parts II and III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K 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,” “est “seeks,” “assumes,” “may,” “should,” “could,” “would,”“foresees,” “forecasts,” “predicts,”“targets,” variations of such words a 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 international expansion strategy; 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; our dependency on the development and maintenance of the infrastructure of the Internet; the effect of evolving government regulations, including import and export controls; the valuation of our deferred tax assets; the potential availability of additional tax assets in the future; the impact of new accounting pronouncements, 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.

PART I

ITEM 1. BUSINESS

Overview

Salesforce is a leading provider of enterprise software, delivered through the cloud, with a focus on customer relationship management, or CRM. We introduced our first CRM solution in 2000, and we have since expanded our service offerings into new areas and industries with new editions, features and platform capabilities. Our core mission is to empower our customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things (“IoT”) and artificial intelligence technologies.

Our service offerings are intuitive and easy to use. They can be deployed rapidly, configured easily and integrated with other platforms and enterprise applications, or apps. We deliver our service offerings via major internet browsers and on leading mobile devices. We sell to businesses of all sizes and in almost every industry worldwide on a subscription basis, primarily through our direct sales efforts and also indirectly through partners. Through our platform and other developer tools, we also encourage third parties to develop additional functionality and new apps that run on our platform, which are sold separately from, or in conjunction with, our service offerings.

Our Customer Success Platform is a comprehensive portfolio of service offerings providing sales force automation, customer service and support, marketing automation, digital commerce, community management, analytics, application development, IoT integration, collaborative productivity tools and our professional cloud services.

Salesforce also believes in giving back. We pioneered, and have inspired other companies to adopt, an integrated philanthropy model called the 1-1-1 model, which leverages 1% of a company's equity, employee time and product to help improve communities around the world. We also believe in equality for all, and have spearheaded initiatives to create a world where equal pay, equal advancement, equal opportunity and equal rights become a reality for our employees and the broader world.

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

The Age of the Customer

At Salesforce, we believe we are living in the single most innovative era in history, as everyone and every thing becomes connected. There are now billions of mobile phones and intelligent connected devices. And behind each and every device, interaction, product and connected community is a customer. Companies have the opportunity to harness all of this information about customers in new and extraordinary ways, enabling them to intelligently connect and engage with customers across every part of the customer experience.

Our Customer Success Platform provides a single view of the customer across all touchpoints. We bring together the power of cloud, mobile, social, IoT and artificial intelligence technologies, enabling our customers to harness data and deliver the connected experiences their customers are increasingly coming to expect.

Our Cloud Service Offerings

Our cloud service offerings empower our customers to:

- grow their sales faster;
- deliver customer service through multiple devices and channels;
- create one-to-one customer journeys;
- personalize buying experiences across all channels;
- build branded communities for customers, partners and employees;
- deliver analytics and predictive insights for every business user;
- turn data generated by the IoT into meaningful actions;
- collaborate on documents, spreadsheets and more to improve productivity, and;
- develop modern mobile and desktop apps quickly and easily.

Our cloud service offerings are as follows:

Sales Cloud. The Sales Cloud, which was our first offering and continues to be the largest contributor to total subscription and support revenues, enables companies to store data, monitor leads and progress, forecast opportunities, gain insights through relationship intelligence and collaborate around any sale on desktop and mobile devices. Our customers use the Sales Cloud to grow their sales pipelines, improve sales productivity, simplify complex business processes and close more deals. The Sales Cloud also offers solutions for partner relationship management, including channel management and partner communities, and the ability to deliver quotes, contracts and invoices to improve forecasting and collect payments faster.

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

Marketing Cloud. The Marketing Cloud enables companies to plan, personalize and optimize one-to-one customer interactions across email, mobile, social, web and connected products. In addition, companies can segment and target audiences to power precise digital marketing at scale. With the Marketing Cloud, customer data can also be integrated with the Sales Cloud and Service Cloud in the form of leads, contacts and customer service cases to give companies a complete view of their customers.

Commerce Cloud. The Commerce Cloud empowers brands to deliver a comprehensive digital commerce experience across web, mobile, social and store. It also offers mobile-first point-of-sale and store operations capabilities that increase store personnel effectiveness, connecting the physical and digital commerce experiences.

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

IoT Cloud. The IoT Cloud enables companies to harness the power behind billions of connected devices, products, sensors and apps to derive entirely new levels of customer insights. With those insights, companies can sell, service and market to their customers in smarter, more personalized ways, and engage proactively with them in real time.

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Analytics Cloud. The Analytics Cloud enables any employee across an organization to quickly and easily explore business data, uncover new insights, make smarter decisions and take action from any device. The Analytics Cloud embeds insights related to the context of the business users' roles directly into the workflows and apps they use to make analytics easier and more intuitive, collaborative and actionable.

Salesforce Quip. Salesforce Quip is a next-generation productivity solution designed for teams with a mobile-first strategy, empowering everyone to collaborate more effectively, work smarter and supercharge their productivity, all without email. Salesforce Quip combines documents, spreadsheets, task lists and team chat in one seamless experience known as a “living document.”

Salesforce Platform. The Salesforce Platform (formerly App Cloud) is for building enterprise apps — powering Salesforce's CRM apps, with thousands of partner-built apps and millions of custom apps built by customers. The Salesforce Platform offers a new continuum of tools, frameworks and services that customers and partners need to build connected apps fast.

Professional Cloud Services

We offer professional cloud services including consulting, deployment, training, user-centric design and integration to help customers to achieve business results faster through adoption of Salesforce solutions. We also offer architects and innovation program teams that act as advisors to plan and execute digital transformations for our customers, providing mission critical support, cloud specialists and pre-packaged accelerators that allow our customers to build on the best practices of our community.

We offer several education service offerings to our customers and partners, ranging from introductory online courses to advanced architecture certifications. With the Trailhead learning platform, our customers and partners have access to free online courses that address topics such as using and administering our services and developing on our platform. For more advanced education, we offer instructor-led and online courses to certify our customers and partners on architecting, administering, deploying and developing our service offerings. In addition, we make available a selection of online educational classes at no charge to customers that subscribe to our customer service plans.

Business Benefits of Using Our Solution

The key advantages of our solution include:

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

Rapid deployment and lower total cost of ownership. Our services can be deployed rapidly since our customers do not have to spend time procuring, installing or maintaining the servers, storage, networking equipment, security products or other hardware and software. We enable customers to achieve up-front savings relative to the traditional enterprise software model. Customers benefit from the predictability of their future costs since they generally pay for the service on a per subscriber basis for the term of the subscription contract.

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

High levels of user adoption. We have designed our solutions to be intuitive and easy to use. Our solutions contain many tools and features recognizable to users of popular consumer web services, so users have a more familiar user experience than typical enterprise applications. As a result, our users can often use and gain benefit from our solutions with minimal training. We have also designed our solutions to be used on popular mobile devices, making it possible for people to conduct business from their phones.

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

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providing infrastructure and development environments on demand, we provide developers the opportunity to create new and innovative apps without having to invest in hardware. Developers with ideas for a new app can create, test and support their solutions on the Salesforce Platform and make the app accessible for a subscription fee to customers.
Continuous innovation. We release hundreds of new features to all of our customers three times a year. Our metadata-driven, global multi-tenant cloud runs on a single code base, which enables every customer to run their business on the latest release without disruption. Because we deploy all upgrades on our servers, new features and functionality automatically become part of our service on the upgrade release date and therefore benefits all of our customers immediately.
Positive environmental impact. Our multi-tenant cloud computing model has a much smaller environmental footprint than traditional IT hardware and software. When organizations move business applications to Salesforce, they can significantly reduce their energy use and carbon footprint compared to traditional on-premises solutions.
Our Strategy
Key elements of our strategy include:
Extending existing service offerings. We offer multiple editions of our service offerings at different price points to meet the needs of customers of different sizes and we have designed our solutions to easily accommodate new features and functionality. We intend to continue to extend all editions of our solutions with new features, functions and increased security through our own development, acquisitions and partnerships. Over the last year, for example, we have invested heavily in artificial intelligence capabilities to create Salesforce Einstein, which will allow users of our products to deliver more predictive customer experiences.
Cross selling and upselling. We see significant opportunity to deepen our relationships with our existing customers. As our customers realize the benefits of our services, we aim to upgrade the customer to premium editions and sell more subscriptions by targeting additional functional areas and business units, ultimately becoming our customers' trusted advisors, inspiring enterprise-wide transformation and accelerating strategic engagements through direct engagement with the highest levels of our customers' executive management.
Expanding into new horizontal markets. As part of our growth strategy, we are delivering innovative solutions in new categories, including analytics, commerce and IoT. We drive innovation both organically and through acquisitions, such as our July 2016 acquisition of Demandware, a digital commerce leader.
Targeting vertical markets. In order to meet the needs of our customers in certain industries, we also provide solutions specifically built for certain vertical industries, such as financial services, healthcare and government.
Extending go-to-market capabilities. We believe that our offerings provide significant value for businesses of any size. We will continue to pursue businesses of all sizes in top industries and major regions globally, primarily through our direct sales force. We have steadily increased and plan to continue to increase the number of direct sales professionals we employ, and we intend to develop additional distribution channels for our solutions around the globe.
Reducing customer attrition. Our goal is to have all of our customers renew their subscriptions prior to the end of their contractual terms. We run customer success and other related programs in an effort to secure renewals of existing customers.
Encouraging the development of third-party applications on our cloud computing platforms. The Salesforce Platform enables existing customers, independent software vendors (“ISVs”) and third-party developers to create and deliver cloud-based apps. It is a platform on which apps can be created, tested, published and run. In addition, these apps can be marketed and sold on the AppExchange, our online marketplace for business apps, or sold directly by software vendors. We believe our ecosystem of developers and software vendors will address the business requirements of both current and future customers.
In addition to the key elements of our business strategy described above, from time to time, we evaluate opportunities to acquire or invest in complementary businesses, services and technologies, and intellectual property rights. This evaluation resulted in our acquisition in fiscal 2017 of several companies, such as:

- SteelBrick, Inc., which provides us with apps to automate the quote-to-cash process,
- MetaMind, Inc., which allows us to extend our intelligence in natural language processing and image recognition across our clouds,

- BeyondCore, Inc., which provides us with smart data discovery technology that automatically explores millions of variable combinations from structured data sources,
- Demandware, Inc., which allows us to expand our position in CRM and pursue the digital commerce market,
- Quip, Inc., which provides us with a next generation productivity solution, and
- Krux Digital, Inc., which provides us with a data management platform.

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Prior to this acquisition activity, our most significant acquisition was ExactTarget, Inc. in fiscal 2014.
Technology, Development and Operations
We deliver our Salesforce solutions as highly scalable, cloud computing application and platform services on a multi-tenant technology architecture.
Multi-tenancy is an architectural approach that allows us to operate a single application instance for multiple organizations, treating all customers as separate tenants who run in virtual isolation from each other. Customers can use and customize an application as though they each have a separate instance, and their data and customizations remain secure and insulated from the activities of all other tenants. Our multi-tenant services run on a single stack of hardware and software, which is comprised of commercially available hardware and a combination of proprietary and commercially available software. As a result, we are able to spread the cost of delivering our services across our user base. In addition, because we do not have to manage thousands of distinct applications with their own business logic and database schemas, we believe that we can scale our business faster than traditional software vendors. Moreover, we can focus our resources on building new functionality to deliver to our customer base as a whole rather than on maintaining an infrastructure to support each of their distinct applications. Multi-tenancy also allows for faster bug and security fixes, automatic software updates and the ability to deploy major releases and frequent, incremental improvements to our services, benefiting the entire user community.
Our services are optimized to run on specific databases and operating systems using the tools and platforms best suited to serve our customers rather than on-premise software that must be written to the different hardware, operating systems and database platforms existing within a customer’s unique systems environment. Our developers build and support solutions and features on a single code base on our chosen technology platform.
Our efforts are focused on improving and enhancing the features, functionality, performance, availability and security of our existing service offerings as well as developing new features, functionality and services. From time to time, we supplement our internal research and development activities with outside development resources and acquired technology. As part of our business strategy, we periodically acquire companies or technologies, and we incorporate the acquired technologies into our solutions. Performance, functional depth, security and the usability of our solutions influence our technology decisions and product direction.
Our customers access our services over the Internet via all of the major Internet browsers and on most major mobile device operating systems.
We provide the majority of our services to our customers from infrastructure operated by us but secured within third-party data center hosting facilities located in the United States and other countries. These third-party data center providers provide space, physical security, continuous power and cooling. The remainder of our services operate from cloud computing platform providers who offer Infrastructure as a Service, including servers, storage, databases and networking.
Sources of Revenue
All of the cloud offerings that we offer to customers are grouped into four major core cloud service offerings: Sales Cloud, Service Cloud, Salesforce Platform and Other, and Marketing Cloud. Our subscription and support revenues are disaggregated into these four core offerings. For a more detailed discussion, see the “Revenue by Cloud Service Offering” discussion in Management’s Discussion and Analysis.
We derive our revenues primarily from subscription fees for our service. We also derive revenues from premier support, which provides customers with additional support beyond the standard support that is included in the basic subscription fee.
We recognize subscription and support revenue ratably over the contract term, beginning on the commencement date of each contract. We enter into professional services contracts that are on a time and materials, fixed fee or subscription basis. We recognize revenue as the services are rendered for time and materials contracts, when the milestones are achieved and accepted by the customer or on a proportional performance basis for fixed price contracts and ratably over the contract term for subscription professional services.
Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services described above and is recognized as

the revenue recognition criteria are met. Unbilled deferred revenue represents future billings under our subscription agreements that have not been invoiced and, accordingly, are not recorded in deferred revenue. We generally invoice customers in annual installments.

Deferred revenue and unbilled deferred revenue are influenced by several factors, including new business seasonality within the year, the specific timing, size and duration of large customer subscription agreements, the timing and compounding

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effects of customer renewals, varying billing cycles of subscription agreements, invoice timing, foreign currency fluctuations and new business linearity within the quarter.

Customers

We sell to businesses of all sizes and in almost every industry worldwide. The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues in fiscal 2017, 2016 or 2015.

Sales, Marketing and Customer Support

We organize our sales and marketing programs by geographic regions, such as the Americas, Europe and Asia Pacific, which includes Japan. The majority of our revenue from the Americas is attributable to customers in the United States. Approximately 26 percent of our revenue comes from customers outside of the Americas.

Direct Sales

We sell our services primarily through our direct sales force, which is comprised of telephone sales personnel based in regional hubs, and field sales personnel based in territories close to their customers. Both our telephone sales and field sales personnel are supported by sales representatives, who are primarily responsible for generating qualified sales leads.

Referral and Indirect Sales

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

This network includes global consulting firms, systems integrators and other partners. In return, we typically pay these partners a fee based on the first-year subscription revenue generated by the customers whom they refer.

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

Strategic Investments

Since 2009, we have been investing in early-to-late stage technology and professional cloud service companies across the globe to support our key business initiatives, which include, among other things, extending the capabilities of our platform and CRM offerings, increasing the ecosystem of enterprise cloud companies and partners, accelerating the adoption of cloud technologies and creating the next-generation of mobile applications and connected products. Our minority investments in over 180 companies as of January 31, 2017 also help us stay connected with the pace of innovation that is currently occurring within the technology industry. In some cases, we have acquired companies in which we have previously invested.

Because of the inherent risk in investing in early-to-late stage technology companies, our individual investments are subject to a risk of partial or total loss of investment capital.

Marketing

Our marketing strategy is to promote our brand and generate demand for our offerings. We use a variety of marketing programs across traditional and social channels to target our prospective and current customers, partners and developers. We focus our marketing activities on the cities and countries with the largest market opportunity.

Our primary marketing activities include:

- Multi-channel marketing campaigns that span email, social, web and more that align to a broader customer journey;
- Proprietary events of all sizes, ranging from Dreamforce to salon dinners, as well as participation in trade shows and industry events, to create customer and prospect awareness;
- Press and industry analyst relations to garner third-party validation and generate positive coverage for our company, offerings and value proposition;
- Content marketing and engagement on all of the major social channels;
- Search engine marketing and advertising to drive traffic to our Web properties;
- Partner co-marketing activities with global and regional implementation partners;
- Web site development to engage and educate prospects and generate interest through product information and demonstrations, case studies, white papers and marketing collateral;
- Customer testimonials;
- Tools that enable our sales organization to more effectively convert leads into customers; and

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- Event sponsorships and primary real estate signage.

Customer Service and Support

Our global customer support group responds to both business and technical inquiries about the use of our products via the web, telephone, email, social networks and other channels. We provide standard customer support during regular business hours at no charge to customers who purchase any of our paying subscription editions. We also offer premier customer support that is either included in a premium offering or sold for an additional fee, which can include services such as priority access to technical resources, developer support, and system administration. In addition, we offer a mission critical support add-on that is designed to provide customers with responses for incidents from a dedicated team knowledgeable about the customer's specific enterprise architecture, and which offers instruction to optimize their usage of our products.

Seasonality

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

Competition

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

We compete primarily with generalized platforms and vendors of packaged business software, as well as companies offering enterprise apps, including CRM, collaboration, e-commerce and business intelligence software. We also compete with internally developed apps. We may encounter competition from established enterprise software vendors, as well as start-up and midsized companies focused on disruption, who may develop toolsets and products that allow customers to build new apps that run on the customers’ current infrastructure or as hosted services. Our current competitors include:

- On-premises offerings from enterprise software application vendors;
- Cloud computing application service providers, either individually or with others;
- Marketing vendors, which may be specialized in advertising, targeting, messaging, or campaign automation;
- Software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- Traditional platform development environment companies;
- Cloud computing development platform companies;
- Internally developed applications (by our potential customers’ IT departments);
- IoT platforms from large companies that have existing relationships with hardware and software companies;
- E-commerce solutions from emerging cloud-only vendors and established on-premises vendors; and
- Artificial intelligence solutions from new startups and established companies.

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

Intellectual Property

We rely on a combination of trademark, copyright, trade secret and patent laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brands and maintain programs to protect and grow our rights. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, services, documentation and other proprietary information. We believe the duration of our patents is adequate relative to the expected lives of our service offerings. We also purchase or license technology that we incorporate into our products or services. At times, we make select intellectual property broadly available at no or low cost to achieve a strategic objective, such as promoting industry standards, advancing interoperability, fostering open source software or attracting and enabling our external development community. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and business methods, we believe, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms. We believe our continuing research and product development are not materially dependent on any single license or other agreement with a third party relating to the development of our products.

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Employees

As of January 31, 2017, we had more than 25,000 employees. None of our employees in the United States are represented by a labor union, however, for certain foreign subsidiaries, workers' councils represent our employees.

Available Information

You can obtain copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our website at http://www.salesforce.com/company/investor/sec-filings/ as soon as reasonably practicable following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting our Investor Relations department at our office address listed above. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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 our customers' and our customers' customers' proprietary and other sensitive data, including financial information and other personally identifiable information. 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 systems, our customers' data or our data, including our intellectual property and other confidential business information. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information 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 in augmenting the technologies to meet the quality standards that are consistent with our brand and reputation. Since our customers use our services for important aspects of their business, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' businesses. As a result, customers could elect to not renew our services or delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

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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. 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 damage to, or failure of our systems generally, including the systems of our third-party platform providers, could result in interruptions in our services. We have from time to time experienced interruptions in our services and such interruptions may occur in the future. Interruptions in our services may 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, such as disaster recovery and business continuity arrangements, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our services.

These hardware, software and cloud computing platforms may not continue to be available at reasonable prices, on commercially reasonable terms or at all. Any loss of the right to use any of these hardware, software or cloud computing platforms could significantly increase our expenses and otherwise result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained through purchase or license and integrated into our services.

If we do not accurately plan for our infrastructure capacity requirements and we experience significant strains on our data center capacity, our customers could experience performance degradation or service outages that may subject us to financial liabilities, result in customer losses and harm our business. When we add data centers and add capacity, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our services, which may damage our business.

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

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

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

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

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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.

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, e-commerce 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-premises offerings from enterprise software application vendors;
- Cloud computing application service providers, either individually or with others;
- Marketing vendors, which may be specialized in advertising, targeting, messaging, or campaign automation;
- Software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- Traditional platform development environment companies;

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- Cloud computing development platform companies;
- Internally developed applications (by our potential customers' IT departments);
- IoT platforms from large companies that have existing relationships with hardware and software companies;
- E-commerce solutions from emerging cloud-only vendors and established on-premises vendors; and
- Artificial intelligence solutions from new startups and established 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, platforms and personnel;
- diversion of financial and managerial resources from existing operations;
- the potential entry into new markets in which we have little or no experience or where competitors may have stronger market positions;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- potential loss of key employees of the acquired company;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- inability to maintain relationships with customers and partners of the acquired business;
- difficulty of transitioning the acquired technology onto our existing platforms and customer acceptance of multiple platforms on a temporary or permanent basis;
- augmenting the acquired technologies and platforms to the levels that are consistent with our brand and reputation;
- increasing or maintaining the security standards for acquired technology consistent with our other services;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into our existing technology;
- negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation;
- additional stock based compensation; the loss of acquired deferred revenue and unbilled deferred revenue;
- delays in customer purchases due to uncertainty related to any acquisition;
- ineffective or inadequate controls, procedures and policies at the acquired company may negatively impact our results of operations;
- challenges caused by integrating operations over distance, and across different languages and cultures;
- currency and regulatory risks associated with foreign countries and potential additional cybersecurity and compliance risks resulting from entry into new markets; and
- the tax effects of any such acquisitions.

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

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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;
- the seasonality of our customers' businesses, especially Commerce Cloud customers, including retailers and branded manufacturers;
- changes in foreign currency exchange rates such as with respect to the British Pound;
- variations in the revenue mix of our services and growth rates of our cloud subscription and support offerings;
- 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;
-

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;

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- 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, acquisitions 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 Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), the new revenue recognition standard;
- 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, 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, Community, IoT, Commerce and Salesforce Quip Clouds remain relatively new and it is uncertain whether our efforts will ever result in

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significant revenue for us. Commerce Cloud originated as part of our Demandware acquisition and Salesforce Quip originated from our acquisition of Quip. 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 operations.

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 less than 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, as well as international operations generally, 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 or potential difficulties protecting our foreign assets or satisfying local obligations;
- 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;
- tax policies addressing multinational operations; and
- regional economic and political conditions.

Any of these factors could negatively impact our business and results of operations. The above factors may also negatively impact our ability to successfully expand into emerging market countries, where we have little or no operating experience, where it can be costly and challenging to establish and maintain operations, including hiring and managing required personnel, and difficult to promote our brand, and where we may not benefit from any first-to-market advantage or otherwise succeed.

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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 contractual subscription period, which is typically 12 to 36 months, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or switch to lower cost offerings of our services. It is difficult to predict attrition rates given our varied customer base of enterprise and small and medium size business customers and the number of multi-year subscription contracts. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers’ spending levels, decreases in the number of users at our customers, competition, pricing increases or changes and deteriorating general economic conditions.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our services to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions and that our customers do not react negatively to any price changes related to these additional features and services. If 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, South America and Australia. 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. 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. Recent events, including the United Kingdom's 2016 vote in favor of exiting the European Union, or "Brexit," and similar geopolitical developments and uncertainty in the European Union and elsewhere could amplify the volatility of currency fluctuations and related risks for our business.

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

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

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In addition, we have been, and may in the future be, sued by third parties for alleged infringement of their claimed proprietary rights. 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 current or future results of operations or cash flows in 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

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

In the technology industry, there is substantial and continuous competition for engineers with high levels of experience in designing, developing and managing software and Internet-related services, as well as competition for sales executives, data scientists and operations personnel. We may not be successful in attracting and retaining qualified personnel. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. These difficulties may be amplified by evolving restrictions on immigration, travel or availability of visas for skilled technology workers. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

In addition, we believe in the importance of our corporate culture, 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 enacted in the United Kingdom and Australia, other fundamental law changes currently being considered by many countries, including the U.S., 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 based taxes resulting from changes in federal, state or international tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, changes to the business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period.

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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 an office building located at 50 Fremont Street in San Francisco, California ("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. Also in July 2016, we entered into the $500.0 million term loan to finance our acquisition of Demandware. Maintenance of our indebtedness and contractual commitments and any additional issuances of indebtedness could:

- impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes;
- cause us to dedicate a substantial portion of our cash flows from operations towards debt service obligations and principal repayments;
- make us more vulnerable to downturns in our business, our industry or the economy in general; and
- due to limitations within the revolving credit facility 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.

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

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

Our overall performance depends in part on worldwide economic and geopolitical conditions. The United States and other key international economies have experienced cyclical downturns from time to time in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can arise suddenly and the full impact of such conditions can remain uncertain. In addition, recent geopolitical developments, including Brexit, have increased levels of political and economic unpredictability globally, and may increase the volatility of global financial markets; the impact of such developments on the global economy 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.

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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.

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

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

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

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

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

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

Risks Relating to Our Convertible Senior Notes and Our Common Stock

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

The trading prices of the securities of technology companies have 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 pay the amount of cash due upon conversion of the notes or the fundamental change purchase price due when a holder submits its notes for purchase upon the occurrence of a fundamental change.

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

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

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

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

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

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

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

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

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

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

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

- permit the board of directors to establish the number of directors;
- provide that directors may only be removed 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;
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- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2017, our executive and principal offices for sales, marketing, professional services and development consist of over 1.9 million square feet of leased and owned property in the San Francisco Bay Area. Of this total, we lease and occupy approximately 1.3 million square feet and own and occupy a majority of the approximately 820,000 square feet of total owned space at 50 Fremont Street. We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space in a number of countries in Europe, North America, Asia, South America, Africa and Australia for our international operations, primarily for local sales and professional services personnel.

In addition, in April 2014, we entered into a lease agreement for approximately 733,000 rentable square feet of under construction office space located in San Francisco, California. The lease payments associated with the lease will be approximately $590.0 million over the 15.5 year term of the lease, beginning in our second quarter of fiscal 2018. We do not currently occupy this property, and we have excluded this square footage from the total leased space in the San Francisco Bay Area stated above.

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

We believe that our existing facilities and offices are adequate to meet our current requirements. If we require additional space, we believe that we will be able to obtain such space on acceptable, commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

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

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

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding our current executive officers as of March 1, 2017 (in alphabetical order):

Name	Age	Position
Joe Allanson	53	Chief Accounting Officer and Corporate Controller
Marc Benioff	52	Chairman of the Board of Directors and Chief Executive Officer
Keith Block	55	Vice Chairman, President and Chief Operating Officer
Alexandre Dayon	49	President, Products
Parker Harris	50	Co-Founder and Chief Technology Officer
Mark Hawkins	57	Chief Financial Officer, Principal Financial Officer and Executive Vice President
Maria Martinez	59	President, Global Customer Success and Latin America
Burke Norton	50	Chief Legal Officer and Chief of Corporate and Government Affairs
Cindy Robbins	44	Executive Vice President, Global Employee Success
Amy Weaver	49	President, Legal and General Counsel

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

Marc Benioff co-founded Salesforce in February 1999 and has served as our Chairman of the Board of Directors since inception. He has served as our Chief Executive Officer since 2001. From 1986 to 1999, Mr. Benioff was employed at Oracle Corporation, an enterprise software company, where he held a number of positions in sales, marketing and product development, including as a Senior Vice President. Mr. Benioff also serves as Chairman of the Board of Salesforce.org, a non-profit public benefit corporation, the Salesforce.com Foundation, a philanthropic private foundation, and as a member of the board of trustees of the World Economic Forum. In the past five years, Mr. Benioff served as a director of Cisco Systems, Inc. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is also on the Board of Trustees.

Keith Block has served as our Vice Chairman, President and as a Director since joining Salesforce in June 2013, and has served as our Chief Operating Officer since February 2016. Prior to Salesforce, Mr. Block was employed at Oracle Corporation from 1986 to June 2012 where he held a number of positions, most recently Executive Vice President, North America. Mr. Block currently serves on the World Economic Forum’s Information Technology Community as a Governor, the Board of Trustees at Carnegie-Mellon University, the President’s Advisory Council at Carnegie-Mellon University Heinz Graduate School and the Board of Trustees at the Concord Museum. Mr. Block received both a B.S. in Information Systems and an M.S. in Management & Policy Analysis from Carnegie-Mellon University.

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

Parker Harris has served as our Co-Founder and Chief Technology Officer since September 2016. Mr. Harris co-founded Salesforce in February 1999 and has served in senior technical positions since inception. From December 2004 to February

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2013, Mr. Harris served as our Executive Vice President, Technology. Prior to Salesforce, Mr. Harris was a Vice President at Left Coast Software, a Java consulting firm he co-founded, from October 1996 to February 1999. Mr. Harris received a B.A. from Middlebury College.

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

Maria Martinez has served as our President, Global Customer Success and Latin America since February 2016. Prior to that, Ms. Martinez served as President, Sales and Customer Success since February 2013, Executive Vice President, Chief Growth Officer from February 2012 to February 2013 and Executive Vice President, Customers for Life from February 2010 to February 2012. Prior to Salesforce, Ms. Martinez was at Microsoft Corporation and served as its Corporate Vice President of Worldwide Services. In addition to Microsoft, she was president and CEO of Embrace Networks, and also held senior leadership roles at Motorola, Inc. and AT&T Inc. / Bell Laboratories. Ms. Martinez currently serves as a director of Plantronics, Inc., where she is also a member of the Nominating and Corporate Governance Committee and the Strategy Committee. Ms. Martinez received a B.S. in Electrical Engineering from the University of Puerto Rico and an M.S. in Computer Engineering from Ohio State University.

Burke Norton has served as our Chief Legal Officer and Chief of Corporate and Government Affairs since April 2016. Prior to that, he served as Chief Legal Officer since October 2011. Prior to Salesforce, Mr. Norton was Executive Vice President, General Counsel and Secretary and a member of the office of the chairman at Expedia, Inc. from October 2006 to October 2011. Previously, Mr. Norton was a partner at the law firm of Wilson Sonsini Goodrich & Rosati P.C., where he practiced corporate and securities law, representing clients in the enterprise software, telecommunications, semiconductor, life sciences, entertainment and ecommerce industries. Mr. Norton holds a J.D. from the University of California, Berkeley School of Law.

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

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

PART II

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

Market Information for Common Stock

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

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

	High	Low
Fiscal year ending January 31, 2017		
First quarter	$77.27	$54.05
Second quarter	$83.77	$73.81
Third quarter	$81.63	$68.42
Fourth quarter	$79.10	$68.41
Fiscal year ending January 31, 2016		
First quarter	$74.65	$57.28
Second quarter	$75.71	$69.16
Third quarter	$78.77	$65.17
Fourth quarter	$82.14	$65.69

Dividend Policy

We have never paid any cash dividends on our common stock. Our board of directors currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board and if the board chooses to declare a cash dividend it will be in compliance with the consolidated leverage ratio covenant associated with our revolving credit facility.

Stockholders

As of January 31, 2017 there were 767 registered stockholders of record of our common stock, including The Depository Trust Company, which holds shares of Salesforce common stock on behalf of an indeterminate number of beneficial owners.

Securities Authorized for Issuance under Equity Compensation Plans

The information concerning our equity compensation plans is incorporated by reference herein to the section of the Proxy Statement entitled “Equity Compensation Plan Information,” to be filed within 120 days of our January 31, 2017 fiscal year end.

Outstanding Convertible Senior Notes and Warrants

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the “0.25% Senior Notes”) due April 1, 2018 and we issued 17.3 million warrants to purchase our common stock. See Note 8 “Debt” in the Notes to the Consolidated Financial Statements for more information.

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Stock Performance Graph

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

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor’s 500 Index and the Nasdaq Computer & Data Processing Index for each of the last five fiscal years ended January 31, 2017, assuming an initial investment of $100. Data for the Standard & Poor’s 500 Index and the Nasdaq Computer & Data Processing Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

	1/31/2012	1/31/2013	1/31/2014	1/31/2015	1/31/2016	1/31/2017
salesforce.com	100.00	147.00	207.00	193.00	233.00	271.00
S&P 500 Index	100.00	114.00	136.00	152.00	148.00	174.00
Nasdaq Computer & Data Processing Index	100.00	105.00	134.00	158.00	166.00	205.00

Recent Sales of Unregistered Securities

As previously disclosed on a Form 8-K filed on October 3, 2016, the Company entered into an Agreement and Plan of Reorganization to acquire Krux, Inc. (“Krux”), a data management platform. Upon closing the transaction on November 1, 2016, the Company issued 4,708,785 shares of Company common stock in exchange for the outstanding shares of Krux capital stock. The issuance of shares was made in reliance on the registration exemption Regulation D promulgated under the Securities Act of 1933, as amended.

Also as consideration in certain acquisitions since November 1, 2016, the Company issued 252,228 shares of its common stock on January 13, 2017 and 215,768 shares of its common stock on February 1, 2017. All or a portion of each such issuance of shares is subject to vesting conditions based upon continued employment of certain recipients following closing of the acquisitions. These issuances were made in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act: Section 4(a)(2) of the Securities Act and Regulation D promulgated under the Securities Act.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for fiscal 2017, 2016 and 2015, and the selected consolidated balance sheet data as of January 31, 2017 and 2016 are derived from, and are qualified by reference to, the audited consolidated financial statements that are included in this Form 10-K. The consolidated statement of operations data for fiscal 2014 and 2013 and the consolidated balance sheet data as of January 31, 2015, 2014 and 2013 are derived from audited consolidated financial statements which are not included in this Form 10-K.

	Fiscal Year Ended January 31,				
(in thousands, except per share data)	2017	2016	2015	2014	2013
Consolidated Statement of Operations					
Revenues:					
Subscription and support	$7,756,205	$6,205,599	$5,013,764	$3,824,542	$2,868,808
Professional services and other	635,779	461,617	359,822	246,461	181,387
Total revenues	8,391,984	6,667,216	5,373,586	4,071,003	3,050,195
Cost of revenues (1)(2):					
Subscription and support	1,556,353	1,188,967	924,638	711,880	494,187
Professional services and other	677,686	465,581	364,632	256,548	189,392
Total cost of revenues	2,234,039	1,654,548	1,289,270	968,428	683,579
Gross profit	6,157,945	5,012,668	4,084,316	3,102,575	2,366,616
Operating expenses (1)(2):					
Research and development	1,208,127	946,300	792,917	623,798	429,479
Marketing and sales	3,918,027	3,239,824	2,757,096	2,168,132	1,614,026
General and administrative	967,563	748,238	679,936	596,719	433,821
Operating lease termination resulting from purchase of 50 Fremont	0	(36,617)	0	0	0
Total operating expenses	6,093,717	4,897,745	4,229,949	3,388,649	2,477,326
Income (loss) from operations	64,228	114,923	(145,633)	(286,074)	(110,710)
Investment income	27,374	15,341	10,038	10,218	19,562
Interest expense	(88,988)	(72,485)	(73,237)	(77,211)	(30,948)
Other income (expense) (1)	9,072	(15,292)	(19,878)	(4,868)	(5,698)
Gain on sales of land and building improvements	0	21,792	15,625	0	0
Gains from acquisitions of strategic investments	13,697	0	0	0	0
Income (loss) before benefit from (provision for) income taxes	25,383	64,279	(213,085)	(357,935)	(127,794)
Benefit from (provision for) income taxes (3)	154,249	(111,705)	(49,603)	125,760	(142,651)
Net income (loss)	$179,632	$(47,426)	$(262,688)	$(232,175)	$(270,445)
Net income (loss) per share-basic and diluted (4):					
Basic net income (loss) per share	$0.26	$(0.07)	$(0.42)	$(0.39)	$(0.48)
Diluted net income (loss) per share	$0.26	$(0.07)	$(0.42)	$(0.39)	$(0.48)
Shares used in computing basic net income (loss) per share	687,797	661,647	624,148	597,613	564,896
Shares used in computing diluted net income (loss) per share	700,217	661,647	624,148	597,613	564,896

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(in thousands)	Fiscal Year Ended January 31, 2017	2016	2015	2014	2013
(1) Amounts include amortization of purchased intangibles from business combinations, as follows:					
Cost of revenues	$127,676	$80,918	$90,300	$109,356	$77,249
Marketing and sales	97,601	77,152	64,673	37,179	10,922
Other non-operating expense	2,491	3,636	0	0	0
(2) Amounts include stock-based expenses, as follows:					
Cost of revenues	$107,457	$69,443	$53,812	$45,608	$33,757
Research and development	187,487	129,434	121,193	107,420	76,333
Marketing and sales	388,937	289,152	286,410	258,571	199,284
General and administrative	136,486	105,599	103,350	91,681	69,976

(3) Amounts include a $210.3 million tax benefit recorded during fiscal 2017 as a result of the release of a portion of the valuation allowance related to the Demandware, Inc. acquisition. See Note 11 “Income Taxes.”

(4) Fiscal 2013 has been adjusted to reflect the four-for-one stock split effected through a stock dividend which occurred in April 2013.

(in thousands)	As of January 31, 2017	2016	2015	2014	2013
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities (4)	$2,208,887	$2,725,377	$1,890,284	$1,321,017	$1,758,285
(Negative) working capital (5)	(1,261,526)	114,318	19,296	(866,972)	(8,770)
Total assets (6)	17,584,923	12,762,920	10,654,053	9,096,124	5,516,200
Long-term obligations excluding deferred revenue (6)(7)	2,789,330	2,119,160	2,254,086	2,002,311	172,607
Accumulated deficit	(464,910)	(653,271)	(605,845)	(343,157)	(110,982)
Total stockholders’ equity	7,500,127	5,002,869	3,975,183	3,038,510	2,317,633

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

(5) The Company considers all its marketable debt securities to be available to support current liquidity needs including those with maturity dates beyond one year, and therefore classifies these securities within current assets on the consolidated balance sheets. For consistency in presentation, working capital in the table above as of January 31, 2016, 2015, 2014, and 2013 includes amounts previously in Marketable securities, noncurrent.

(6) In April 2015, the 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 as an asset. 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. We adopted this standard retrospectively and reclassified all of our unamortized debt issuance costs previously reported in other assets, net to net against the respective debt liability balances. As a result of the reclassifications, total assets, working capital, long-term obligations excluding deferred revenue in the table above as of January 31, 2016, 2015, 2014 and 2013 were reclassified out of assets and netted against the long-term obligations.

(7) Long-term obligations primarily excludes deferred revenue, noncurrent and includes the term loan entered into in July 2016 for $500.0 million, loan assumed on 50 Fremont, the 0.75% convertible senior notes issued in January 2010, the 0.25% convertible senior notes issued in March 2013, the term loan entered into in July 2013 which was subsequently paid off in fiscal 2016, and the revolving credit facility entered into in October 2014 and amended

July 2016. At January 31, 2015, the 0.75% notes had matured and were no longer outstanding. At January 31, 2014 and 2013, the 0.75% notes were convertible and accordingly were classified as a current liability.

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

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

Overview

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

Our core mission is to help our customers transform by empowering them to connect with their customers in entirely new ways. Our Customer Success Platform - including sales force automation, customer service and support, marketing automation, digital commerce, community management, analytics, application development, Internet of Things ("IoT") integration and collaborative productivity tools - provides the tools customers need to succeed in a digital world. Key elements of our strategy include:

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

In addition to the key elements of our business strategy described above, we evaluate opportunities to acquire or invest in complementary businesses, services and technologies and intellectual property rights. This evaluation resulted in a significant increase in our acquisition activity during fiscal 2017.

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

To address these factors, we will need to, among other things, continue to add substantial numbers of paying subscriptions, upgrade our customers to fully featured versions or arrangements such as an Enterprise License Agreement, provide high quality technical support to our customers, encourage the development of third-party applications on our platforms and continue to focus on retaining customers at the time of renewal. Our plans to invest for future growth include the continuation of the expansion of our data center capacity, the hiring of additional personnel, particularly in direct sales, other customer-related areas and research and development, the expansion of domestic and international selling and marketing activities, specifically in our top markets, continuing to develop our brands, the addition of distribution channels, the upgrade of our service offerings, the development of new services such as the introduction of our Analytics Cloud, Community Cloud, and IoT Cloud, the integration of new and acquired technologies such as Commerce Cloud, artificial intelligence technologies and Salesforce Quip, the expansion of our Marketing Cloud and Salesforce Platform (formerly App Cloud) core service offerings, and the additions to our global infrastructure to support our growth.

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We also regularly evaluate acquisitions or investment opportunities in complementary businesses, joint ventures, services and technologies and intellectual property rights in an effort to expand our service offerings. We expect to continue to make such investments and acquisitions in the future and we plan to reinvest a significant portion of our incremental revenue in future periods to grow our business and continue our leadership role in the cloud computing industry. As part of our growth strategy, we are delivering innovative solutions in new categories, including analytics, e-commerce, artificial intelligence and the Internet of Things. We drive innovation organically and to a lesser extent through acquisitions, such as our July 2016 acquisition of Demandware, Inc. (“Demandware”), a digital commerce leader. We have a disciplined and thoughtful acquisition process where we routinely survey the industry landscape across a wide range of companies. As a result of our aggressive growth plans and integration of our previously acquired businesses, we have incurred significant expenses from equity awards and amortization of purchased intangibles, which have reduced our operating income. We remained focused on improving operating margins in fiscal 2017 and expect to remain similarly focused in fiscal 2018.

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 and Commerce Cloud service offerings. Our attrition rate was between eight and nine percent during the fiscal year ended January 31, 2017, which is comparable to the eight and nine percent attrition rate during the same period a year ago. While it is difficult to predict, we expect our attrition rate to remain in this range as we continue to expand our enterprise business and invest in customer success and related programs.

We expect marketing and sales costs, which were 47 percent of our total revenues for the fiscal year ended January 31, 2017 and 49 percent for the same period a year ago, to continue to represent a substantial portion of total revenues in the future as we seek to grow our customer base, sell more products to existing customers, and build greater brand awareness.

In July 2016 we acquired 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 January 31, 2017, there was $200.0 million of borrowings outstanding under the revolving credit facility.

In August 2016, we acquired the outstanding stock of Quip, Inc. (“Quip”). 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 total purchase price for Quip was approximately $412.0 million.

In November 2016, we acquired the outstanding stock of Krux Digital, Inc. (“Krux”). Krux is a leading data management platform that unifies, segments and activates audiences to increase engagement with users, prospects and customers. The total purchase price for Krux was approximately $741.8 million.

Prior to these and other acquisitions during fiscal 2017, our most significant acquisition was ExactTarget, Inc in fiscal 2014.

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, including fiscal 2017, we have completed a number of acquisitions. These acquisitions have allowed us to expand our offerings, presence and reach in various market segments of the enterprise cloud computing market. While we have offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, our business operates in one operating segment because

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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 92 percent of our total revenues for fiscal 2017. Subscription revenues are driven primarily by the number of paying subscribers, varying service types, the price of our service and renewals. We define a "customer" as a separate and distinct buying entity (e.g., a company, a distinct business unit of a large corporation, a partnership, etc.) that has entered into a contract to access our enterprise cloud computing services. We define a "subscription" as a unique user account purchased by a customer for use by its employees or other customer-authorized users, and we refer to each such user as a "subscriber." The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues during fiscal 2017, 2016 or 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 a time and materials, fixed fee or subscription basis. We also offer a number of training classes on implementing, using and administering our service that are billed on a per person, per class basis. Our typical professional services payment terms provide that our customers pay us within 30 days of invoice.

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

Revenue by Cloud Service Offering

The information below is provided on a supplemental basis to give additional insight into the revenue performance of our individual core service offerings.

All of the cloud offerings that we offer to customers are grouped into four major core cloud service offerings. Subscription and support revenues consisted of the following (in millions):

	Fiscal Year Ended January 31,				
	2017	2016	2015	Variance-Percent FY'17 and FY'16	Variance-Percent FY'16 and FY'15
Sales Cloud	$3,060.6	$2,699.0	$2,443.0	13 %	10 %
Service Cloud	2,320.7	1,817.8	1,320.2	28 %	38 %
Salesforce Platform and Other	1,441.6	1,034.7	745.3	39 %	39 %
Marketing Cloud	933.3	654.1	505.3	43 %	29 %
Total	$7,756.2	$6,205.6	$5,013.8		

Subscription and support revenues from the Analytics Cloud, Community Cloud, IoT Cloud, Commerce Cloud and Salesforce Quip were not significant. Analytics Cloud, IoT Cloud and Salesforce Quip revenue is included with Salesforce Platform and Other in the table above. Community Cloud revenue is included in either Sales Cloud, Service Cloud or Salesforce Platform 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. As required under U.S. generally accepted accounting principles ("U.S. GAAP"), we recorded deferred revenue related to acquired contracts from Demandware at fair value. As a result, we did not recognize certain revenues related to these acquired contracts that Demandware would have otherwise recorded as an independent entity. Of the $933.3 million subscription and support revenue for Marketing Cloud for the fiscal year 2017, approximately 11 percent was attributed to our Demandware acquisition. To the extent Demandware contracts are renewed following the acquisition, we will recognize the revenues for the full values of the contracts over the respective contractual periods.

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 fiscal 2017 and 10 percent for fiscal 2016, based on customers' estimated product demand plans and these allocated amounts are included in the table above.

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

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

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

Deferred revenue primarily consists of billings to customers for our subscription service. Over 90 percent of the value of our billings to customers is for our subscription and support service. We generally invoice our customers in annual cycles. Approximately 80 percent of all subscription and support invoices were issued with annual terms during fiscal 2017, which is consistent with fiscal 2016. 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.

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

	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016
Fiscal 2017				
Accounts receivable, net	$3,196,643	$1,281,425	$1,323,114	$1,192,965
Deferred revenue, current and noncurrent	5,542,802	3,495,133	3,823,561	4,006,914
Operating cash flow (1)	706,146	154,312	250,678	1,051,062
Unbilled deferred revenue (2)	9.0 bn	8.6 bn	8.0 bn	7.6 bn

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

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

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Unbilled Deferred Revenue, an Operational Measure

The U.S. GAAP deferred revenue balance on our consolidated balance sheet does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Unbilled deferred revenue 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. Unbilled deferred revenue also does not include any estimates for overage billings above a customer's minimum commitment.

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 fiscal 2017, we recognized stock-based expense of $820.4 million. As of January 31, 2017, the aggregate stock compensation remaining to be amortized to costs and expenses was $2.6 billion. We expect this stock compensation balance to be amortized as follows: $980.5 million during fiscal 2018; $762.9 million during fiscal 2019; $540.5 million during fiscal 2020; $249.7 million during fiscal 2021; $17.4 million during fiscal 2022; $17.2 million during fiscal 2023; $8.0 million during fiscal 2024. The expected amortization reflects only outstanding stock awards as of January 31, 2017 and assumes no forfeiture activity. We expect to continue to issue stock-based awards to our employees in future periods.

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

Critical Accounting Policies and Estimates

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

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

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

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

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and

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

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

Subscription and Support Revenues

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

Professional Services and Other Revenues

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

Multiple Deliverable Arrangements

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

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

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

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

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

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

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

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During fiscal 2017, we deferred $462.0 million of commission expenditures and we amortized $371.5 million to sales expense. During fiscal 2016, we deferred $380.0 million of commission expenditures and we amortized $319.1 million to sales expense. Deferred commissions on our consolidated balance sheets totaled $539.6 million at January 31, 2017 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.

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

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

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

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

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

- future expected cash flows from subscription and support contracts, professional services contracts, other customer contracts and acquired developed technologies and patents;
- the acquired company’s trade name, trademark and existing customer relationship, as well as assumptions about the period of time the acquired trade name and trademark will continue to be used in our offerings;
- uncertain tax positions and tax related valuation allowances assumed; and
- discount rates.

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

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

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

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

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

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

Strategic Investments. We 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. If, based on the terms of our ownership of these marketable and non-marketable securities, we determine that we exercise significant influence on the entity to which these marketable and non-marketable securities relate, we apply the equity method of accounting for such investments.

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

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

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Results of Operations

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

	Fiscal Year Ended January 31,					
	2017	As a % of Total Revenues	2016	As a % of Total Revenues	2015	As a % of Total Revenues
Revenues:						
Subscription and support	$7,756,205	92%	$6,205,599	93%	$5,013,764	93%
Professional services and other	635,779	8	461,617	7	359,822	7
Total revenues	8,391,984	100	6,667,216	100	5,373,586	100
Cost of revenues (1)(2):						
Subscription and support	1,556,353	19	1,188,967	18	924,638	17
Professional services and other	677,686	8	465,581	7	364,632	7
Total cost of revenues	2,234,039	27	1,654,548	25	1,289,270	24
Gross profit	6,157,945	73	5,012,668	75	4,084,316	76
Operating expenses (1)(2):						
Research and development	1,208,127	14	946,300	14	792,917	15
Marketing and sales	3,918,027	47	3,239,824	49	2,757,096	51
General and administrative	967,563	11	748,238	11	679,936	13
Operating lease termination resulting from purchase of 50 Fremont	0	0	(36,617)	(1)	0	0
Total operating expenses	6,093,717	72	4,897,745	73	4,229,949	79
Income (loss) from operations	64,228	1	114,923	2	(145,633)	(3)
Investment income	27,374	0	15,341	0	10,038	0
Interest expense	(88,988)	(1)	(72,485)	(1)	(73,237)	(1)
Other income (expense) (1)	9,072	0	(15,292)	0	(19,878)	0
Gain on sales of land and building improvements	0	0	21,792	0	15,625	0
Gains from acquisitions of strategic investments	13,697	0	0	0	0	0
Income (loss) before benefit from (provision for) income taxes	25,383	0	64,279	1	(213,085)	(4)
Benefit from (provision for) income taxes (3)	154,249	2	(111,705)	(2)	(49,603)	(1)
Net income (loss)	$179,632	2%	$(47,426)	(1)%	$(262,688)	(5)%

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

	Fiscal Year Ended January 31,					
	2017	As a % of Total Revenues	2016	As a % of Total Revenues	2015	As a % of Total Revenues
Cost of revenues	$127,676	2%	$80,918	1%	$90,300	2%
Marketing and sales	97,601	1	77,152	1	64,673	1
	2,491	0	3,636	0	0	0

Other non-operating expense

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

	Fiscal Year Ended January 31,					
	2017	As a % of Total Revenues	2016	As a % of Total Revenues	2015	As a % of Total Revenues
Cost of revenues	$107,457	1%	$69,443	1%	$53,812	1%
Research and development	187,487	2	129,434	2	121,193	2
Marketing and sales	388,937	5	289,152	4	286,410	5
General and administrative	136,486	2	105,599	2	103,350	2

(3) Amounts include a $210.3 million tax benefit recorded during fiscal 2017 as a result of the partial release of the valuation allowance related to the Demandware, Inc. acquisition. See Note 11 “Income Taxes.”

	As of January 31,	
	2017	2016
Selected Balance Sheet Data (in thousands):		
Cash, cash equivalents and marketable securities	$2,208,887	$2,725,377
Deferred revenue, current and noncurrent	5,542,802	4,291,553
Unbilled deferred revenue (an operational measure)	9,000,000	7,100,000
Principal due on our outstanding debt obligations	2,050,000	1,350,000

Unbilled deferred revenue was approximately $9.0 billion as of January 31, 2017 and $7.1 billion as of January 31, 2016. 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. The January 31, 2017 balance includes approximately $450.0 million related to Demandware, which we acquired in July 2016.

Fiscal Years Ended January 31, 2017 and 2016

Revenues.

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

Total revenues were $8.4 billion for fiscal 2017, compared to $6.7 billion during the same period a year ago, an increase of $1.7 billion, or 26 percent. Subscription and support revenues were $7.8 billion, or 92 percent of total revenues, for fiscal 2017, compared to $6.2 billion, or 93 percent of total revenues, during the same period a year ago, an increase of $1.6 billion, or 25 percent. The increase in subscription and support revenues in fiscal 2017 was primarily caused by volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers. Revenue resulting from our July 2016 acquisition of Demandware contributed $120.4 million to total revenues for fiscal 2017. Revenues from other acquired businesses in fiscal 2017 were not material. We 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 our pricing have not been a significant driver of revenue growth for the periods presented. Professional services and other revenues were $635.8 million, or eight percent of total revenues, for fiscal 2017, compared to $461.6 million, or seven percent of total revenues, for the same period a year ago, an increase of $174.2 million, or 38 percent. The increase is primarily due to the growth in our subscription professional services.

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Revenues by geography were as follows (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Americas	$6,224,971	$4,910,745	$3,868,329
Europe	1,373,547	1,162,808	984,919
Asia Pacific	793,466	593,663	520,338
	$8,391,984	$6,667,216	$5,373,586

	Fiscal Year Ended January 31,		
	2017	2016	2015
Revenues by geography:			
Americas	74 %	74 %	72 %
Europe	16	17	18
Asia Pacific	10	9	10
	100%	100%	100%

Revenues in Europe and Asia Pacific accounted for $2.2 billion, or 26 percent of total revenues, for fiscal 2017, compared to $1.8 billion, or 26 percent of total revenues, during the same period a year ago, an increase of $410.5 million, or 23 percent. The increase in revenues on a total dollar basis outside of the Americas was the result of the increasing acceptance of our service, our focus on marketing our services internationally, additional resources and consistent attrition rates as a result of the reasons stated above. Revenues outside of the Americas increased on a total dollar basis in fiscal 2017 despite an overall strengthening of the U.S. dollar, which reduced aggregate international revenues by $103.8 million compared to fiscal 2016.

Americas revenue attributed to the United States was approximately 96 percent, 95 percent and 94 percent for fiscal 2017, 2016 and 2015, respectively. No other country represented more than ten percent of total revenue during fiscal 2017, 2016 or 2015.

Cost of Revenues.

	Fiscal Year Ended January 31,		Variance Dollars
(in thousands)	2017	2016	
Subscription and support	$1,556,353	$1,188,967	$367,386
Professional services and other	677,686	465,581	212,105
Total cost of revenues	$2,234,039	$1,654,548	$579,491
Percent of total revenues	27 %	25 %	

Cost of revenues was $2.2 billion, or 27 percent of total revenues, for fiscal 2017, compared to $1.7 billion, or 25 percent of total revenues, during the same period a year ago, an increase of $579.5 million. The increase in absolute dollars was primarily due to an increase of $240.9 million in employee-related costs, an increase of $38.0 million in stock-based expenses, an increase of $162.4 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of $23.5 million in professional and outside services, an increase of amortization of purchased intangibles of $46.8 million, an increase in depreciation of equipment of $16.2 million and an increase in allocated overhead of $35.9 million. We have increased our headcount by 34 percent since January 31, 2016 to meet the higher demand for services from our customers and as a result of our fiscal 2017 acquisitions. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity. Additionally, the amortization of purchased intangible assets may increase as we acquire additional businesses and technologies. We also plan to add additional employees in our professional services group to facilitate the adoption of our services. The timing of these expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues in future periods.

The cost of professional services and other revenues exceeded the related revenue during fiscal 2017 and fiscal 2016 by $41.9 million and $4.0 million, respectively. The increase is primarily due to the growth in our headcount as well as the increase in employee costs for our subscription professional services employees. We expect the cost of professional services to continue to exceed revenue from professional services in future fiscal years. We believe that this investment in professional services facilitates the adoption of our service offerings.

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Operating Expenses.

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

Research and development expenses were $1.2 billion, or 14 percent of total revenues, for fiscal 2017, compared to $946.3 million, or 14 percent of total revenues, during the same period a year ago, an increase of $261.8 million. The increase in absolute dollars was primarily due to an increase of $173.2 million in employee-related costs, an increase of $58.1 million in stock-based expense, an increase of $28.1 million in development and test data center expense, and an increase in allocated overhead. We increased our research and development headcount by 35 percent since January 31, 2016 in order to improve and extend our service offerings and develop new technologies as a result of our fiscal 2017 acquisitions. We expect that research and development expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to invest in additional employees and technology to support the development of new, and improve existing, technologies and the integration of acquired technologies.

Marketing and sales expenses were $3.9 billion, or 47 percent of total revenues, for fiscal 2017, compared to $3.2 billion, or 49 percent of total revenues, during the same period a year ago, an increase of $678.2 million. The increase in absolute dollars was primarily due to increases of $484.3 million in employee-related costs, including amortization of deferred commissions, $34.7 million in advertising expense, $20.4 million in amortization of purchased intangibles, $99.8 million stock-based expense and $36.5 million in allocated overhead. Our marketing and sales headcount increased by 24 percent since January 31, 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 expenses were $967.6 million, or 11 percent of total revenues, for fiscal 2017, compared to $748.2 million, or 11 percent of total revenues, during the same period a year ago, an increase of $219.3 million. The increase was primarily due to an increase of $175.2 million in employee-related costs, an increase of $30.9 million in stock-based expense and an increase in professional and outside services. Our general and administrative headcount increased by 22 percent since January 31, 2016 as we added personnel to support our growth.

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

Other income and expense.

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

Investment income consists of income on our cash and marketable securities balances. Investment income was $27.4 million for fiscal 2017 and was $15.3 million 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 consists of interest on our convertible senior notes, capital leases, financing obligation related to 350 Mission, the loan assumed on 50 Fremont, revolving credit facility and the $500.0 million term loan that was entered into in connection with our acquisition of Demandware. Interest expense was $89.0 million for fiscal 2017 and was $72.5 million

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during the same period a year ago. The increase was primarily due to the term loan in fiscal 2017 associated with the Demandware purchase and our outstanding balance in our revolving facility in in fiscal 2017.

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

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

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

Benefit from (provision for) income taxes.

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

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

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

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 the trend in increasing taxable income continues. Our valuation allowance could contribute to the volatility of our effective tax rate and is difficult to forecast in future periods.

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Fiscal Years Ended January 31, 2016 and 2015

Revenues.

	Fiscal Year Ended January 31,		Variance	
(in thousands)	2016	2015	Dollars	Percent
Subscription and support	$6,205,599	$5,013,764	$1,191,835	24%
Professional services and other	461,617	359,822	101,795	28%
Total revenues	$6,667,216	$5,373,586	$1,293,630	24%

Total revenues were $6.7 billion for fiscal 2016, compared to $5.4 billion for fiscal 2015, an increase of $1.3 billion, or 24 percent. Subscription and support revenues were $6.2 billion, or 93 percent of total revenues, for fiscal 2016, compared to $5.0 billion, or 93 percent of total revenues for fiscal 2015, an increase of $1.2 billion, or 24 percent. The increase in subscription and support revenues in fiscal 2016 was primarily attributable to volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers. Our attrition rate, which was favorable compared to the prior year, also played a role in the increase in subscription and support revenues. Changes in the net price per user per month were not a significant driver of revenue growth for the periods presented. Professional services and other revenues were $461.6 million, or seven percent of total revenues, for fiscal 2016, compared to $359.8 million, or seven percent of total revenues, for the same period a year ago, an increase of $101.8 million, or 28 percent.

Revenues in Europe and Asia Pacific accounted for $1.8 billion, or 26 percent of total revenues, for fiscal 2016, compared to $1.5 billion, or 28 percent of total revenues, during the same period a year ago, an increase of $251.2 million, or 17 percent. The increase in revenues on a total dollar basis outside of the Americas was the result of the increasing acceptance of our service, our focus on marketing our services internationally, additional resources and consistent attrition rates as a result of the reasons stated above. Revenues outside of the Americas increased on a total dollar basis in fiscal 2016 despite an overall strengthening of the U.S. dollar, which reduced aggregate international revenues by $170.5 million compared to fiscal 2015.

Cost of Revenues.

	Fiscal Year Ended January 31,		Variance Dollars
(in thousands)	2016	2015	
Subscription and support	$1,188,967	$924,638	$264,329
Professional services and other	465,581	364,632	100,949
Total cost of revenues	$1,654,548	$1,289,270	$365,278
Percent of total revenues	25 %	24 %	

Cost of revenues was $1.7 billion, or 25 percent of total revenues, for fiscal 2016, compared to $1.3 billion, or 24 percent of total revenues, for fiscal 2015, an increase of $365.3 million. The increase in absolute dollars was primarily due to an increase of $127.9 million in employee-related costs, an increase of $15.6 million in stock-based expenses, an increase of $137.2 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of $40.6 million in professional and outside services, an increase in depreciation of equipment and an increase in allocated overhead, offset by a decrease of $9.4 million in amortization of purchased intangibles. Our headcount increased by 34 percent in fiscal 2016 to meet the higher demand for services from our customers.

The cost of professional services and other revenues exceeded the related revenue during fiscal 2016 by $4.0 million as compared to $4.8 million for fiscal 2015.

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Operating Expenses.

(in thousands)	Fiscal Year Ended January 31, 2016	2015	Variance Dollars
Research and development	$946,300	$792,917	$153,383
Marketing and sales	3,239,824	2,757,096	482,728
General and administrative	748,238	679,936	68,302
Operating lease termination resulting from purchase of 50 Fremont	(36,617)	0	(36,617)
Total operating expenses	$4,897,745	$4,229,949	$667,796
Percent of total revenues	73 %	79 %	

Research and development expenses were $946.3 million, or 14 percent of total revenues, for fiscal 2016, compared to $792.9 million, or 15 percent of total revenues, for fiscal 2015, an increase of $153.4 million. The increase in absolute dollars was primarily due to an increase of $114.0 million in employee-related costs, an increase of $8.2 million in stock-based expense, an increase of $18.2 million in development and test data center expense, and an increase in allocated overhead. Our research and development headcount increased by 16 percent in fiscal 2016 in order to improve and extend our service offerings and develop new technologies.

Marketing and sales expenses were $3.2 billion, or 49 percent of total revenues, for fiscal 2016, compared to $2.8 billion, or 51 percent of total revenues, for fiscal 2015, an increase of $482.7 million. The increase in absolute dollars was primarily due to increases of $304.7 million in employee-related costs, including amortization of deferred commissions, $112.0 million in advertising expense, $12.5 million in amortization of purchased intangibles, $2.7 million stock-based expense and $40.4 million in allocated overhead. Our marketing and sales headcount increased by 21 percent in fiscal 2016. The increase in headcount was primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and administrative expenses were $748.2 million, or 11 percent of total revenues, for fiscal 2016, compared to $679.9 million, or 13 percent of total revenues, for fiscal 2015, an increase of $68.3 million. The increase was primarily due to an increase of $39.0 million in employee-related costs, an increase of $8.1 million in bad debt expense, an increase of $2.2 million in stock-based expense and an increase in professional and outside services. Our general and administrative headcount increased by 16 percent in fiscal 2016 as we added personnel to support our growth.

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

Other income and expense.

(in thousands)	Fiscal Year Ended January 31, 2016	2015	Variance Dollars
Investment income	$15,341	$10,038	$ 5,303
Interest expense	(72,485)	(73,237)	752
Other expense	(15,292)	(19,878)	4,586
Gain on sales of land and building improvements	21,792	15,625	6,167

Investment income consists of income on our cash and marketable securities balances. Investment income was $15.3 million for fiscal 2016 and was $10.0 million for fiscal 2015. The increase was primarily due to the increase in cash, cash equivalent and marketable securities balances.

Interest expense consists of interest on our convertible senior notes, capital leases, term loan and revolving credit facility. Interest expense, net of interest costs capitalized, was $72.5 million for fiscal 2016 and was $73.2 million during fiscal 2015. The decrease was primarily due to the payment of our revolving credit facility in 2015.

Other expense primarily consists of non-operating costs such as strategic investments fair market adjustments, foreign exchange rate fluctuations, real estate transactions and losses on derecognition of debt. The decrease in other expense for fiscal 2016 was primarily due to losses totaling $10.3 million related to the extinguishment of the 0.75% Senior Notes converted by noteholders in fiscal 2015.

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Gain on sales of land and building improvements consists of the gain we recognized from sales of undeveloped real estate and a portion of associated perpetual parking rights in San Francisco, California. Gain on sales of land and building improvements, net of closing costs, was $21.8 million for fiscal 2016 and was $15.6 million for fiscal 2015.

Provision for income taxes.

(in thousands)	Fiscal Year Ended January 31, 2016	2015	Variance Dollars
Provision for income taxes	$(111,705)	$(49,603)	$(62,102)
Effective tax rate	174 %	(23)%	

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

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

Liquidity and Capital Resources

At January 31, 2017, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $2.2 billion and accounts receivable of $3.2 billion.

Net cash provided by operating activities was $2.2 billion during fiscal 2017 and $1.7 billion during the same period a year ago. Net cash provided by operating activities was $1.7 billion during fiscal 2016 and $1.2 billion in fiscal 2015. 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 fiscal 2017 for the transaction fees related to the acquisitions we completed during the year.

Our working capital accounts consist of cash, cash equivalents and marketable securities, accounts receivable, deferred commissions, prepaid assets and other current assets. Claims against working capital include accounts payable, accrued expenses, deferred revenue, and other current liabilities and payments related to our debt obligations. Our working capital may be impacted by factors in future periods such as billings to customers for subscriptions and support services and the subsequent collection of those billings, certain amounts and timing of which are seasonal. Our working capital in some quarters, may be impacted by adverse foreign currency exchange rate movements. 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. The year on year compounding effect of this seasonality in both billing patterns and overall business causes the value of invoices that we generate in the fourth quarter to increase as a proportion of our total annual billings.

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

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Net cash used in investing activities was $2.7 billion during fiscal 2017 and $1.5 billion during the same period a year ago. The net cash used in investing activities during fiscal 2017 primarily related to business combinations with the largest being the acquisition of Demandware in July 2016, purchases of marketable securities of approximately $1.1 billion, new office build-outs and strategic and capital investments, which were offset by the cash inflows for the period from sales and maturities of marketable securities of $2.0 billion. Net cash used in investing activities was $1.5 billion during fiscal 2016 and $698.4 million during fiscal 2015. The net cash used in investing activities during fiscal 2016 primarily related to capital expenditures, strategic investments, business combinations, purchase of 50 Fremont land and building, new office build-outs, investment of cash balances offset by proceeds from sales and maturities of marketable securities and proceeds from sales of Mission Bay land and the use of restricted cash to purchase 50 Fremont land and building.

Net cash provided by financing activities was $997.7 million during fiscal 2017 as compared to net cash provided by financing activities of $73.2 million during the same period a year ago. Net cash provided by financing activities during fiscal 2017 consisted primarily of $748.8 million proceeds from borrowings under our revolving credit facility, $495.6 million of proceeds from the Term Loan, net of loan fees, $401.5 million from proceeds from equity plans 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 offset by $98.2 million of principal payments on capital leases and $550.0 million payment of our revolving credit facility. Net cash provided by financing activities was $73.2 million during fiscal 2016 as compared to net cash used in financing activities of $318.2 million during fiscal 2015. Net cash provided by financing activities during fiscal 2016 consisted primarily of $455.5 million from proceeds from equity plan offset by $82.3 million of principal payments on capital leases and $300.0 million payment of our revolving credit facility. During fiscal 2015, we repaid the convertible senior notes that matured.

In March 2013, we issued at par value $1.15 billion of 0.25% convertible senior notes (the “0.25% Senior Notes”), due April 1, 2018, unless earlier purchased by us or converted. The 0.25% Senior Notes will be convertible if during any 20 trading days during the 30 consecutive trading days of any fiscal quarter, our common stock trades at a price exceeding 130% of the conversion price of $66.44 per share applicable to the 0.25% Senior Notes. The 0.25% Senior Notes are classified as a noncurrent liability on our consolidated balance sheet as of January 31, 2017. 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 January 31, 2017. Accordingly, the 0.25% Senior Notes were not convertible at the holders’ option.

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%, in each case with such spread being determined based on the Company’s consolidated leverage ratio for the preceding four fiscal quarter period.
The Term Loan Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict us and our 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. We are 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. We were in compliance with the Term Loan Credit Agreement’s covenants as of January 31, 2017.

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 January 31, 2017, we had $200.0 million in outstanding borrowings under the Credit Facility. Subsequent to January 31, 2017, we paid the remaining outstanding balance of 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 January 31, 2017.

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In February 2015, we acquired 50 Fremont Street, a 41-story building totaling approximately 820,000 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 $96.0 million in fiscal 2018, $108.0 million in fiscal 2019 and $126.0 million in fiscal 2020. During fiscal 2017, we paid $70.0 million.

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 January 31, 2017, we have a total of $83.3 million in letters of credit outstanding in favor of certain landlords for office space. To date, no amounts have been drawn against the letters of credit, which renew annually and expire at various dates through December 2030.

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

Our principal commitments consist of obligations under leases for office space, co-location data center facilities, and our development and test data center, as well as leases for computer equipment, software, furniture and fixtures. At January 31, 2017, the future non-cancelable minimum payments under these commitments were as follows (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Capital lease obligations, including interest	$436,747	$119,342	$317,369	$36	$0
Operating lease obligations:					
Facilities space	2,536,933	257,387	569,210	507,519	1,202,817
Computer equipment and furniture and fixtures	382,215	205,863	176,352	0	0
0.25% Convertible Senior Notes, including interest	1,154,313	2,875	1,151,438	0	0
Loan assumed on 50 Fremont	200,000	0	0	0	200,000
Term loan	500,000	0	500,000	0	0
Revolving Credit Facility	200,000	0	0	200,000	0
Financing obligation - leased facility	322,340	21,437	44,206	45,984	210,713
Contractual commitments	365,200	122,660	239,558	2,982	0
	$6,097,748	$729,564	$2,998,133	$756,521	$1,613,530

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

The financing obligation above represents the total obligation for our lease of approximately 445,000 rentable square feet of office space in San Francisco, California. As of January 31, 2017, $220.3 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.

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

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In April 2014, we entered into an office lease agreement to lease approximately 732,000 rentable square feet of an office building located in San Francisco, California that is under construction. The lease payments associated with the lease will be approximately $590.0 million over the 15.5 year term of the lease, beginning in our second quarter of fiscal 2018, which is reflected above under Operating Leases.

In February 2016, we 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 our first quarter of fiscal 2018. In May 2016, we 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 our second quarter of fiscal 2018.

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

We believe our existing cash, cash equivalents and 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

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

Foreign Currency Transaction Risk

Our foreign currency exposures typically arise from selling annual and multi-year subscriptions in multiple currencies, customer trade accounts, 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.

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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.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling $2.2 billion at January 31, 2017. This amount was invested primarily in money market funds, time deposits, corporate notes and bonds, government securities and other debt securities with credit ratings of at least BBB or better. The cash, cash equivalents and marketable securities are held for general corporate purposes including possible acquisitions of, or investments in, complementary businesses, services or technologies, working capital and capital expenditures. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

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

An immediate increase or decrease in interest rates of 100-basis points at January 31, 2017 could result in a $13.0 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

We deposit our cash with multiple financial institutions.

In March 2013, we issued the 0.25% Senior Notes due April 1, 2018. Holders of the 0.25% Senior Notes may convert the 0.25% Senior Notes prior to maturity upon the occurrence of certain circumstances. Upon conversion, we would pay the holder an amount of cash equal to the principal amounts of the 0.25% Senior Notes and 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 0.25% Senior 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 0.25% Senior Notes.

The 0.25% Senior Notes have a fixed annual interest rate of 0.25%, and therefore we do not have economic interest rate exposure on the 0.25% Senior Notes. However, the value of the 0.25% Senior Notes are exposed to interest rate risk. Generally, the fair values of our fixed interest rate 0.25% Senior Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our 0.25% Senior Notes is affected by our stock price. The principal balance of our 0.25% Senior Notes was $1.15 billion as of January 31, 2017. The total estimated fair value of our 0.25% Senior Notes at January 31, 2017 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 fourth quarter of fiscal 2017, which was $126.52.

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 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 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 January 31, 2017, there was a $200.0 million outstanding borrowing amount under the Credit Agreement. The weighted average interest rate on the borrowings under the Credit Facility was 1.9% for fiscal 2017. Subsequent to January 31, 2017, we paid the remaining balance of the Credit Facility.

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 January 31, 2017.

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 1.8% as of January 31, 2017. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations.

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

Our strategic investments portfolio consists of investments in over 180 privately held companies, primarily comprised of ISVs and system integrators. We invest in early-to-late stage technology and professional cloud service companies across the globe to support our key business initiatives, which include, among other things, extending the capabilities of our platform and CRM offerings, increasing the ecosystem of enterprise cloud companies and partners, accelerating the adoption of cloud technologies and creating the next-generation of mobile applications and connected products. 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 16 investments individually equal to or in excess of $10 million. As of January 31, 2017 and January 31, 2016 the carrying value of our investments in privately held companies was $526.0 million and $504.5 million, respectively. The estimated fair value of our investments in privately held companies was $758.3 million and $714.1 million as of January 31, 2017 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.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
The following financial statements are filed as part of this Annual Report on Form 10-K:

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. as of January 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 31, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of salesforce.com, inc. at January 31, 2017 and 2016 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 11 to the consolidated financial statements, the Company changed its method of accounting for share-based payments to employees as a result of the adoption of the amendments to FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," effective February 1, 2016.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), salesforce.com, inc.'s internal control over financial reporting as of January 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations on the Treadway Commission (2013 framework) and our report dated March 6, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California

March 6, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited salesforce.com, inc.'s internal control over financial reporting as of January 31, 2017 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Salesforce.com, inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Demandware, Inc., which is included in the January 31, 2017 consolidated financial statements of salesforce.com, inc. and constituted two percent of both consolidated total and net assets as of January 31, 2017, and one percent of consolidated total revenues for the year then ended. Our audit of internal control over financial reporting of salesforce.com, inc. also did not include an evaluation of the internal control over financial reporting of Demandware, Inc.

In our opinion, salesforce.com, inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2017 consolidated financial statements of salesforce.com, inc. and our report dated March 6, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Redwood City, California
March 6, 2017

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

	January 31, 2017	January 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$1,606,549	$1,158,363
Marketable securities	602,338	1,567,014
Accounts receivable, net of allowance for doubtful accounts of $12,039 and $10,488 at January 31, 2017 and 2016, respectively	3,196,643	2,496,165
Deferred commissions	311,770	259,187
Prepaid expenses and other current assets	279,527	250,594
Total current assets	5,996,827	5,731,323
Property and equipment, net	1,787,534	1,715,828
Deferred commissions, noncurrent	227,849	189,943
Capitalized software, net	141,671	123,065
Strategic investments	566,953	520,721
Goodwill	7,263,846	3,849,937
Intangible assets acquired through business combinations, net	1,113,374	490,006
Other assets, net	486,869	142,097
Total assets	$17,584,923	$12,762,920
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$1,752,664	$1,349,338
Deferred revenue	5,505,689	4,267,667
Total current liabilities	7,258,353	5,617,005
Deferred revenue, noncurrent	37,113	23,886
Convertible 0.25% senior notes, net	1,116,360	1,088,097
Term loan	497,221	0
Loan assumed on 50 Fremont	198,268	197,998
Revolving credit facility	196,542	0
Other noncurrent liabilities	780,939	833,065
Total liabilities	10,084,796	7,760,051
Commitments and contingencies (Notes 13 and 15)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 5,000 shares authorized and none issued and outstanding	0	0
Common stock, $0.001 par value; 1,600,000 shares authorized, 707,460 and 670,929 issued and outstanding at January 31, 2017 and 2016, respectively	708	671
Additional paid-in capital	8,040,170	5,705,386
Accumulated other comprehensive loss	(75,841)	(49,917)
Accumulated deficit (Note 1)	(464,910)	(653,271)
Total stockholders' equity	7,500,127	5,002,869
Total liabilities and stockholders' equity	$17,584,923	$12,762,920

See accompanying Notes.

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

	Fiscal Year Ended January 31,		
	2017	2016	2015
Revenues:			
Subscription and support	$7,756,205	$6,205,599	$5,013,764
Professional services and other	635,779	461,617	359,822
Total revenues	8,391,984	6,667,216	5,373,586
Cost of revenues (1)(2):			
Subscription and support	1,556,353	1,188,967	924,638
Professional services and other	677,686	465,581	364,632
Total cost of revenues	2,234,039	1,654,548	1,289,270
Gross profit	6,157,945	5,012,668	4,084,316
Operating expenses (1)(2):			
Research and development	1,208,127	946,300	792,917
Marketing and sales	3,918,027	3,239,824	2,757,096
General and administrative	967,563	748,238	679,936
Operating lease termination resulting from purchase of 50 Fremont	0	(36,617)	0
Total operating expenses	6,093,717	4,897,745	4,229,949
Income (loss) from operations	64,228	114,923	(145,633)
Investment income	27,374	15,341	10,038
Interest expense	(88,988)	(72,485)	(73,237)
Other income (expense) (1)	9,072	(15,292)	(19,878)
Gain on sales of land and building improvements	0	21,792	15,625
Gains from acquisitions of strategic investments	13,697	0	0
Income (loss) before benefit from (provision for) income taxes	25,383	64,279	(213,085)
Benefit from (provision for) income taxes (3)	154,249	(111,705)	(49,603)
Net income (loss)	$179,632	$(47,426)	$(262,688)
Basic net income (loss) per share	$0.26	$(0.07)	$(0.42)
Diluted net income (loss) per share	$0.26	$(0.07)	$(0.42)
Shares used in computing basic net income (loss) per share	687,797	661,647	624,148
Shares used in computing diluted net income (loss) per share	700,217	661,647	624,148

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

	Fiscal Year Ended January 31,		
	2017	2016	2015
Cost of revenues	$127,676	$	