

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2019

OR

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

Commission File Number: 001-32224

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3320693

(IRS Employer
Identification No.)

Salesforce Tower

415 Mission Street, 3rd Fl

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
Common Stock, par value \$0.001 per share

Trading Symbol(s)
CRM

Name of each exchange on which registered
New York Stock Exchange

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of November 29, 2019, there were approximately 887 million shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

salesforce.com, inc. **Condensed Consolidated Balance Sheets** (in millions) (unaudited)

	October 31, 2019	January 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,868	\$ 2,669
Marketable securities	2,661	1,673
Accounts receivable, net	2,573	4,924
Costs capitalized to obtain revenue contracts, net	813	788
Prepaid expenses and other current assets	1,111	629
Total current assets	11,026	10,683
Property and equipment, net	2,365	2,051
Operating lease right-of-use assets (Note 1)	3,150	0
Costs capitalized to obtain revenue contracts, noncurrent, net	1,103	1,232
Strategic investments	1,760	1,302
Goodwill	25,022	12,851
Intangible assets acquired through business combinations, net	4,987	1,923
Capitalized software and other assets, net	529	695
Total assets	\$ 49,942	\$ 30,737
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 2,881	\$ 2,691
Operating lease liabilities, current (Note 1)	735	0
Unearned revenue	6,858	8,564
Total current liabilities	10,474	11,255
Noncurrent debt	2,824	3,173
Noncurrent operating lease liabilities (Note 1)	2,535	0
Other noncurrent liabilities	830	704
Total liabilities	16,663	15,132
Stockholders' equity:		
Common stock	1	1
Additional paid-in capital	31,243	13,927
Accumulated other comprehensive loss	(74)	(58)
Retained earnings	2,109	1,735
Total stockholders' equity	33,279	15,605
Total liabilities and stockholders' equity	\$ 49,942	\$ 30,737

See accompanying Notes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Revenues:				
Subscription and support	\$ 4,239	\$ 3,168	\$ 11,480	\$ 9,038
Professional services and other	274	224	767	641
Total revenues	4,513	3,392	12,247	9,679
Cost of revenues (1)(2):				
Subscription and support	870	676	2,275	1,887
Professional services and other	264	213	740	618
Total cost of revenues	1,134	889	3,015	2,505
Gross profit	3,379	2,503	9,232	7,174
Operating expenses (1)(2):				
Research and development	774	481	1,935	1,368
Marketing and sales	2,063	1,588	5,584	4,421
General and administrative	477	342	1,214	987
Loss on settlement of Salesforce.org reseller agreement (Note 6)	0	0	166	0
Total operating expenses	3,314	2,411	8,899	6,776
Income from operations	65	92	333	398
Gains on strategic investments, net	6	63	396	417
Other expense	(7)	(27)	(19)	(71)
Income before benefit from (provision for) income taxes	64	128	710	744
Benefit from (provision for) income taxes	(173)	(23)	(336)	4
Net income (loss)	\$ (109)	\$ 105	\$ 374	\$ 748
Basic net income (loss) per share	\$ (0.12)	\$ 0.14	\$ 0.46	\$ 1.00
Diluted net income (loss) per share	\$ (0.12)	\$ 0.13	\$ 0.45	\$ 0.97
Shares used in computing basic net income (loss) per share	879	760	809	746
Shares used in computing diluted net income (loss) per share	879	785	829	772

(1) Amounts include amortization of intangible assets acquired through business combinations, as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Cost of revenues	\$ 157	\$ 62	\$ 280	\$ 153
Marketing and sales	109	67	242	164

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Cost of revenues	\$ 54	\$ 42	\$ 143	\$ 119
Research and development	169	81	348	228
Marketing and sales	249	180	625	474
General and administrative	71	48	158	133

See accompanying Notes.

salesforce.com, inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in millions)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Net income (loss)	\$ (109)	\$ 105	\$ 374	\$ 748
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation and other losses	(1)	(10)	(31)	(37)
Unrealized gains (losses) on marketable securities and privately held debt securities	4	(14)	18	(18)
Other comprehensive income (loss), before tax	3	(24)	(13)	(55)
Tax effect	0	0	(3)	0
Other comprehensive income (loss), net	3	(24)	(16)	(55)
Comprehensive income (loss)	<u>\$ (106)</u>	<u>\$ 81</u>	<u>\$ 358</u>	<u>\$ 693</u>

See accompanying Notes.

salesforce.com, inc.
Condensed Consolidated Statements of Stockholders' Equity
(in millions)
(unaudited)

	Three and Nine Months Ended October 31, 2019					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2019	770	\$ 1	\$ 13,927	\$ (58)	\$ 1,735	\$ 15,605
Common stock issued	5	0	113	0	0	113
Stock-based expenses	0	0	343	0	0	343
Other comprehensive loss, net of tax	0	0	0	(7)	0	(7)
Net income	0	0	0	0	392	392
Balance at April 30, 2019	775	1	14,383	(65)	2,127	16,446
Common stock issued	5	0	253	0	0	253
Stock-based expenses	0	0	388	0	0	388
Other comprehensive loss, net of tax	0	0	0	(12)	0	(12)
Net income	0	0	0	0	91	91
Balance at July 31, 2019	780	1	15,024	(77)	2,218	17,166
Common stock issued	4	0	88	0	0	88
Stock-based expenses	0	0	543	0	0	543
Shares issued related to business combinations	102	0	15,588	0	0	15,588
Other comprehensive income, net of tax	0	0	0	3	0	3
Net loss	0	0	0	0	(109)	(109)
Balance at October 31, 2019	886	\$ 1	\$ 31,243	\$ (74)	\$ 2,109	\$ 33,279

See accompanying Notes.

salesforce.com, inc.
Condensed Consolidated Statements of Stockholders' Equity (cont.)
(in millions)
(unaudited)

	Three and nine months ended October 31, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2018	730	\$ 1	\$ 9,752	\$ (12)	\$ 635	\$ 10,376
Cumulative effect of accounting changes (1)	0	0	0	(7)	(10)	(17)
Common stock issued	4	0	115	0	0	115
Settlement of convertible notes and warrants	0	0	4	0	0	4
Stock-based expenses	0	0	252	0	0	252
Other comprehensive loss, net of tax	0	0	0	(14)	0	(14)
Net income	0	0	0	0	344	344
Balance at April 30, 2018	734	1	10,123	(33)	969	11,060
Common stock issued	7	0	269	0	0	269
Shares issued related to business combinations	10	0	1,565	0	0	1,565
Settlement of convertible notes and warrants	6	0	0	0	0	0
Stock-based expenses	0	0	351	0	0	351
Other comprehensive loss, net of tax	0	0	0	(17)	0	(17)
Net income	0	0	0	0	299	299
Balance at July 31, 2018	757	1	12,308	(50)	1,268	13,527
Common stock issued	4	0	103	0	0	103
Shares issued related to business combinations	4	0	631	0	0	631
Stock-based expenses	0	0	351	0	0	351
Other comprehensive loss, net of tax	0	0	0	(24)	0	(24)
Net income	0	0	0	0	105	105
Balance at October 31, 2018	765	\$ 1	\$ 13,393	\$ (74)	\$ 1,373	\$ 14,693

(1) Reflects the cumulative effect adjustments upon the adoption of Accounting Standards Update ("ASU") 2016-01, "Financial Instruments - Overall (Subtopic 825-10)" ("ASU 2016-01") and ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory."

See accompanying Notes.

salesforce.com, inc.
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Operating activities:				
Net income (loss)	\$ (109)	\$ 105	\$ 374	\$ 748
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	608	257	1,502	707
Amortization of costs capitalized to obtain revenue contracts, net	221	190	647	561
Expenses related to employee stock plans	543	351	1,274	954
Loss on settlement of Salesforce.org reseller agreement (Note 6)	0	0	166	0
Gains on strategic investments, net	(6)	(63)	(396)	(417)
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	(29)	(48)	2,599	1,965
Costs capitalized to obtain revenue contracts, net	(246)	(186)	(543)	(450)
Prepaid expenses and other current assets and other assets	(183)	82	(252)	(4)
Accounts payable	22	(42)	63	79
Accrued expenses and other liabilities	243	8	(50)	(390)
Operating lease liabilities	(200)	0	(546)	0
Unearned revenue	(566)	(511)	(2,139)	(1,686)
Net cash provided by operating activities	298	143	2,699	2,067
Investing activities:				
Business combinations, net of cash acquired	94	(130)	(339)	(5,115)
Purchases of strategic investments	(346)	(108)	(567)	(292)
Sales of strategic investments	138	83	403	89
Purchases of marketable securities	(438)	(343)	(1,944)	(634)
Sales of marketable securities	427	79	888	1,352
Maturities of marketable securities	358	10	551	98
Capital expenditures	(170)	(136)	(507)	(428)
Net cash provided by (used in) investing activities	63	(545)	(1,515)	(4,930)
Financing activities:				
Proceeds from issuance of debt, net	0	0	0	2,966
Proceeds from employee stock plans	179	185	550	568
Principal payments on financing obligations (1)	(14)	(2)	(159)	(110)
Repayments of debt	(150)	(1)	(352)	(1,028)
Net cash provided by financing activities	15	182	39	2,396
Effect of exchange rate changes	(18)	6	(24)	29
Net increase (decrease) in cash and cash equivalents	358	(214)	1,199	(438)
Cash and cash equivalents, beginning of period	3,510	2,319	2,669	2,543
Cash and cash equivalents, end of period	\$ 3,868	\$ 2,105	\$ 3,868	\$ 2,105

(1) Previously referred to as principal payments on capital lease obligations.

See accompanying Notes.

salesforce.com, inc.
Condensed Consolidated Statements of Cash Flows
Supplemental Cash Flow Disclosure
(in millions)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	\$ 48	\$ 54	\$ 104	\$ 83
Income taxes, net of tax refunds	\$ 38	\$ 25	\$ 93	\$ 62
Non-cash investing and financing activities:				
Fair value of equity awards assumed	\$ 373	\$ 93	\$ 373	\$ 480
Fair value of common stock issued as consideration for business combinations	\$ 15,215	\$ 537	\$ 15,215	\$ 1,715

See accompanying Notes.

salesforce.com, inc.

Notes to Condensed Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

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

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

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

Fiscal Year

The Company's fiscal year ends on January 31. References to fiscal 2020, for example, refer to the fiscal year ending January 31, 2020.

Basis of Presentation

The accompanying condensed consolidated balance sheets as of October 31, 2019 and January 31, 2019 and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flows for the three and nine months ended October 31, 2019 and 2018, respectively, are unaudited.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company's management, the unaudited condensed consolidated financial statements include all adjustments necessary for the fair presentation of the Company's balance sheets as of October 31, 2019 and January 31, 2019, and its results of operations, including its comprehensive income (loss), stockholders' equity and its cash flows for the three and nine months ended October 31, 2019 and 2018. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2019 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2020.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2019, filed with the Securities and Exchange Commission (the "SEC") on March 8, 2019.

The Company adopted Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), also referred to as Topic 842, as discussed below. As a result, the condensed consolidated balance sheet as of October 31, 2019 is not comparable with that as of January 31, 2019.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in the Company's condensed consolidated financial statements and notes thereto.

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

- the fair value of assets acquired and liabilities assumed for business combinations;
- the standalone selling price (SSP) of performance obligations for revenue contracts with multiple performance obligations;
- the recognition, measurement and valuation of current and deferred income taxes and uncertain tax positions;
- the average period of benefit associated with costs capitalized to obtain revenue contracts;
- the fair value of certain stock awards issued;
- the useful lives of intangible assets; and
- the valuation of privately-held strategic investments.

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

Principles of Consolidation

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

Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and assess performance. Over the past few years, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments of the enterprise cloud computing market.

While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, and operates in multiple countries, the Company's business operates in one operating segment because most of the Company's offerings operate on its single Customer Success Platform and most of the Company's products are deployed in a nearly identical way, and the Company's chief operating decision makers evaluate the Company's financial information and resources and assess the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Concentrations of Credit Risk, Significant Customers and Investments

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for its doubtful accounts receivable. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts. Receivables are written-off and charged against the recorded allowance when the Company has exhausted collection efforts without success.

No single customer accounted for more than five percent of accounts receivable at October 31, 2019 and January 31, 2019. No single customer accounted for five percent or more of total revenue during the nine months ended October 31, 2019 and 2018, respectively. As of October 31, 2019 and January 31, 2019, assets located outside the Americas were 10 percent and 14 percent of total assets, respectively. As of October 31, 2019 and January 31, 2019, assets located in the United States were 88 percent and 84 percent of total assets, respectively.

The Company is also exposed to concentrations of risk in its strategic investment portfolio. As of October 31, 2019, the Company held five investments with carrying values that were individually greater than five percent of its total strategic investments, of which two were publicly traded and three were privately held. As of January 31, 2019, the Company held five investments that were individually greater than five percent of its total strategic investments, of which four were publicly traded and one was privately held.

Revenue Recognition

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing the Company's enterprise cloud computing services (collectively, "Cloud Services"), software licenses, 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 and implementation services. Other revenue consists primarily of training fees.

Revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. If the consideration promised in a contract includes a variable amount, for example, overage fees, contingent fees or service level penalties, the Company includes an estimate of the amount it expects to receive for the total transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur.

The Company determines the amount of revenue to be recognized through the application of the following steps:

- Identification of the contract, or contracts with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and

- Recognition of revenue when or as the Company satisfies the performance obligations.

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

Subscription and Support Revenues

Subscription and support revenues are comprised of fees that provide customers with access to Cloud Services, software licenses and related support and updates during the term of the arrangement.

Cloud Services allow customers to use the Company's multi-tenant software without taking possession of the software. Revenue is generally recognized ratably over the contract term.

With the May 2018 acquisition of MuleSoft, Inc. ("MuleSoft") and the August 2019 acquisition of Tableau Software, Inc. ("Tableau"), subscription and support revenues also includes revenues associated with software licenses. These licenses for on-premises software provide the customer with a right to use the software as it exists when made available. Customers purchase these licenses through a subscription. Revenues from distinct licenses are generally recognized upfront when the software is made available to the customer. In cases where the Company allocates revenue to software updates and support, primarily because the updates are provided at no additional charge, such revenue is recognized as the updates are provided, which is generally ratably over the contract term.

The Company typically invoices its customers annually. Typical payment terms provide that customers pay within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or revenue, depending on whether transfer of control to customers has occurred.

Professional Services and Other Revenues

The Company's professional services contracts are either on a time and materials, fixed fee or subscription basis. These revenues are recognized as the services are rendered for time and materials contracts, on a proportional performance basis for fixed price contracts or ratably over the contract term for subscription professional services contracts. Training revenues are recognized as the services are performed.

Significant Judgments - Contracts with Multiple Performance Obligations

The Company enters into contracts with its customers that may include promises to transfer multiple Cloud Services, software licenses, premium support and professional services. A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Cloud Services and software licenses are distinct because such offerings are often sold separately. In determining whether professional services are distinct, the Company considers the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription start date and the contractual dependence of the service on the customer's satisfaction with the professional services work. To date, the Company has concluded that all of the professional services included in contracts with multiple performance obligations are distinct.

The Company allocates the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which the Company would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation.

The Company determines SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the customer demographic, the geographic area where services are sold, price lists, the Company's go-to-market strategy, historical sales and contract prices. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

In certain cases, the Company is able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Company uses a single amount to estimate SSP when it has observable prices.

If SSP is not directly observable, for example when pricing is highly variable, the Company uses a range of SSP. The Company determines the SSP range using information that may include market conditions or other observable inputs. The Company typically has more than one SSP for individual products and services due to the stratification of those products and services by customer size and geography.

Costs Capitalized to Obtain Revenue Contracts

The Company capitalizes incremental costs of obtaining a non-cancelable subscription and support revenue contract. The capitalized amounts consist primarily of sales commissions paid to the Company's direct sales force. Capitalized amounts also

include (1) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, (2) commissions paid to employees upon renewals of subscription and support contracts, (3) the associated payroll taxes and fringe benefit costs associated with the payments to the Company's employees, and to a lesser extent (4) success fees paid to partners in emerging markets where the Company has a limited presence.

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

The capitalized amounts are recoverable through future revenue streams under all non-cancelable customer contracts. The Company periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are potential indicators of impairment.

Amortization of capitalized costs to obtain revenue contracts is included in marketing and sales expense in the accompanying condensed consolidated statements of operations.

During the nine months ended October 31, 2019, the Company capitalized \$543 million of costs to obtain revenue contracts and amortized \$647 million to marketing and sales expense. During the same period a year ago, the Company capitalized \$450 million of costs to obtain revenue contracts and amortized \$561 million to marketing and sales expense. Costs capitalized to obtain a revenue contract, net on the Company's condensed consolidated balance sheets totaled \$1.9 billion at October 31, 2019 and \$2.0 billion at January 31, 2019. There were no impairments of costs to obtain revenue contracts for the three and nine months ended October 31, 2019 and 2018, respectively.

Cash and Cash Equivalents

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

Marketable Securities

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

Strategic Investments

The Company holds strategic investments in privately held debt and equity securities and publicly held equity securities in which the Company does not have a controlling interest or significant influence.

Privately held equity securities are recorded at cost and adjusted for observable transactions for identical or similar investments of the same issuer (referred to as the measurement alternative) or impairment. All gains and losses on privately held equity securities, realized and unrealized, are recorded through gains on strategic investments, net on the condensed consolidated statement of operations. Privately held debt securities are recorded at fair value with changes in fair value recorded through accumulated other comprehensive income on the condensed consolidated balance sheet.

Valuations of privately held securities are inherently complex due to the lack of readily available market data and require the Company's use of judgment. The carrying value is not adjusted for the Company's privately held equity securities if there are no observable price changes in a same or similar security from the same issuer or if there are no identified events or changes in circumstances that may indicate impairment, as discussed below. In determining the estimated fair value of its strategic investments in privately held companies, the Company utilizes the most recent data available to the Company. The Company assesses its privately held debt and equity securities in its strategic investment portfolio at least quarterly for impairment. The Company's impairment analysis encompasses an assessment of both qualitative and quantitative factors including the investee's

financial metrics, market acceptance of the investee's product or technology and the rate at which the investee is using its cash. If the investment is considered impaired, the Company recognizes an impairment through the condensed consolidated statement of operations and establishes a new carrying value for the investment.

Publicly held equity securities are measured at fair value with changes recorded through gains on strategic investments, net on the condensed consolidated statement of operations.

If, based on the terms of these privately held and publicly traded securities, the Company determines that the Company exercises significant influence on the entity to which these securities relate, the Company will apply the equity method of accounting for such investments.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in the Euro, British Pound Sterling, Japanese Yen, Canadian Dollar and Australian Dollar. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. The Company generally enters into master netting arrangements with the financial institutions with which it contracts for such derivative contracts, which permit net settlement of transactions with the same counterparty, thereby reducing credit-related losses in the event of the financial institutions' nonperformance. As of October 31, 2019 and January 31, 2019, the outstanding foreign currency derivative contracts were recorded at fair value on the condensed consolidated balance sheets.

Foreign currency derivative contracts are marked-to-market at the end of each reporting period with gains and losses recognized as other expense to offset the gains or losses resulting from the settlement or remeasurement of the underlying foreign currency denominated receivables and payables. While the contract or notional amount is often used to express the volume of foreign currency derivative contracts, the amounts potentially subject to credit risk are generally limited to the amounts, if any, by which the counterparties' obligations under the agreements exceed the obligations of the Company to the counterparties.

Fair Value Measurement

The Company measures its cash and cash equivalents, marketable securities and foreign currency derivative contracts at fair value. In addition, the Company measures its strategic investments, including its publicly held equity securities, privately held debt securities and privately held equity securities for which there has been an observable price change in a same or similar security, at fair value. The additional disclosures regarding the Company's fair value measurements are included in Note 5 "Fair Value Measurement."

Property and Equipment

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

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

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

Capitalized Software Costs

The Company capitalizes costs related to its enterprise cloud computing services and certain projects for internal use incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, which is generally three to five years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Intangible Assets Acquired through Business Combinations

Intangible assets are amortized over their estimated useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Management tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Impairment Assessment

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

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

There were no material impairments of capitalized software, intangible assets, long-lived assets or goodwill during the nine months ended October 31, 2019 and 2018, respectively.

Business Combinations

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

In the event the Company acquires an entity with which the Company has a preexisting relationship, the Company will recognize a gain or loss to settle that relationship as of the acquisition date within the condensed consolidated statements of operations. In the event that the Company acquires an entity in which the Company previously held a strategic investment, the difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss and recorded within net gains (or losses) on strategic investments in the condensed consolidated statement of operations.

Leases

Effective at the start of fiscal 2020, the Company adopted the provisions and expanded disclosure requirements described in Topic 842. The Company adopted the standard using the modified retrospective method. Accordingly, the results for the prior comparable periods were not adjusted to conform to the current period measurement or recognition of results.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, operating lease liabilities, current and noncurrent operating lease liabilities on the Company's condensed consolidated balance sheets. Finance leases are included in property and equipment, accrued expenses and other liabilities, and other noncurrent liabilities on the Company's condensed consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and the corresponding lease liabilities represent its obligation to make lease payments arising from the lease. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease ROU asset is reduced for tenant incentives and excludes any initial direct costs incurred. As the Company's leases do not provide an implicit rate, the net present value of future minimum lease payments is determined using the Company's incremental borrowing rate. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, in an economic environment where the leased asset is located. The Company's lease terms may include options to extend or terminate the lease. These options are reflected in the ROU asset and lease liability when it is reasonably certain that the Company will exercise the option. The Company reassesses the lease term if and when a significant event or change in circumstances occurs within the control of the Company, such as construction of significant leasehold improvements that are expected to have economic value when the option becomes exercisable.

Lease expenses for minimum lease payments for operating leases are recognized on a straight-line basis over the lease term. Amortization expense of the ROU asset for finance leases is recognized on a straight-line basis over the lease term and interest expense for finance leases is recognized based on the incremental borrowing rate.

The Company has lease agreements with lease and non-lease components, which it has elected to combine for all asset classes. In addition, the Company does not recognize ROU assets or lease liabilities for leases with a term of 12 months or less of all asset classes.

On the lease commencement date the Company establishes assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are amortized over the lease term to operating expense.

The Company additionally has entered into subleases for unoccupied leased office space. Any impairments to the ROU asset, leasehold improvements or other assets as a result of a sublease are recognized in the period the sublease is executed and recorded as an operating expense. Any sublease payments received in excess of the straight-line rent payments for the sublease are recorded as an offset to operating expenses and recognized over the sublease life.

Stock-Based Expense

Stock-based expenses related to stock options are measured based on grant date at fair value using the Black-Scholes option pricing model and restricted stock awards based on grant date at fair value using the closing stock price. The Company recognizes stock-based expenses related to stock options and restricted stock awards on a straight-line basis, net of estimated forfeitures, over the requisite service period of the awards, which is generally the vesting term of four years.

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

Stock-based expenses related to performance share grants, which are awarded to executive officers, are measured based on grant date at fair value using a Monte Carlo simulation model and expensed on a straight-line basis, net of estimated forfeitures, over the service period of the awards, which is generally the vesting term of three years.

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

Income Taxes

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

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

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully

execute its business plans. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.

Foreign Currency Translation

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

Warranties and Indemnification

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

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

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

New Accounting Pronouncements Adopted in Fiscal 2020

ASU 2016-02

In February 2016, the FASB issued Topic 842, which requires lessees to record most leases on their balance sheet but recognize the expenses on their statement of operations and cash flows on the statement of cash flows in a manner similar to previous accounting guidance. Topic 842 generally requires that lessees recognize operating and financing liabilities for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term.

Effective on February 1, 2019, the Company adopted the provisions and expanded disclosure requirements described in Topic 842. The Company adopted the standard using the transitional provision of Accounting Standards Update 2018-11, "Leases (Topic 842) Targeted Improvements" ("ASU 2018-11"), which allows for the adoption of Topic 842 to be applied prospectively at the beginning of the fiscal year of adoption. As such, the condensed consolidated balance sheet is not comparable with that as of January 31, 2019. The Company elected the package of practical expedients and therefore did not reassess prior conclusions on whether contracts are or contain a lease, lease classification, and initial direct costs. The Company did not use hindsight when determining the lease term.

Upon adoption of Topic 842, leases previously designated as operating leases are now reported on the condensed consolidated balance sheet, which has materially increased total assets and liabilities. Specifically, the Company recorded operating lease ROU assets of approximately \$2.9 billion and corresponding operating lease liabilities of \$3.1 billion on its opening condensed consolidated balance sheet. Leases previously designated as capital leases are now identified as finance leases and continue to be reported on the condensed consolidated balance sheet. In addition, the previously recorded financing obligation and building asset associated with the Company's leased facility at 350 Mission Street was derecognized and the lease is now accounted for as a finance lease on the Company's condensed consolidated balance sheet. Topic 842 did not have a material impact to the Company's condensed consolidated statement of operations or net cash provided by operating activities. The adoption did not impact the Company's compliance with its debt covenants.

Accounting Pronouncements Pending Adoption

ASU 2016-13

In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, which includes the Company's accounts receivables, certain financial instruments and contract assets. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company is evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements in order to adopt the new standard in the first quarter of fiscal 2021 and does not expect the impact to be material.

Reclassifications

Certain reclassifications to fiscal 2019 balances were made to conform to the current period presentation in the condensed consolidated balance sheets, statements of operations and statements of cash flows. These reclassifications did not affect net cash provided by operating, investing, or financing activities.

2. Revenues

Disaggregation of Revenue

Subscription and Support Revenue by the Company's service offerings

Subscription and support revenues consisted of the following (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Sales Cloud	\$ 1,168	\$ 1,020	\$ 3,371	\$ 2,989
Service Cloud	1,140	917	3,247	2,657
Salesforce Platform and Other	1,287	742	3,041	2,029
Marketing and Commerce Cloud	644	489	1,821	1,363
	<u>\$ 4,239</u>	<u>\$ 3,168</u>	<u>\$ 11,480</u>	<u>\$ 9,038</u>

Total Revenue by Geographic Locations

Revenues by geographical region consisted of the following (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Americas	\$ 3,216	\$ 2,425	\$ 8,649	\$ 6,864
Europe	880	641	2,421	1,876
Asia Pacific	417	326	1,177	939
	<u>\$ 4,513</u>	<u>\$ 3,392</u>	<u>\$ 12,247</u>	<u>\$ 9,679</u>

Revenues by geography are determined based on the region of the Company's contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent during the three and nine months ended October 31, 2019 and 2018. No other country represented more than ten percent of total revenue during the three and nine months ended October 31, 2019 and 2018, respectively.

Contract Balances

Contract Asset

As described in Note 1, subscription and support revenue is generally recognized ratably over the contract term beginning on the commencement date of each contract. License revenue is recognized as the licenses are delivered. The Company records a contract asset when revenue recognized on a contract exceeds the billings. The Company's standard billing terms are annual in advance. Contract assets were \$461 million as of October 31, 2019 as compared to \$215 million as of January 31, 2019, and are included in prepaid expenses and other current assets on the condensed consolidated balance sheet. Contract assets as of October 31, 2019 includes the acquired contract asset balance from the Tableau acquisition in August 2019 of \$131 million.

Impairments of contract assets were immaterial during the three and nine months ended October 31, 2019 and 2018, respectively.

Unearned Revenue

Unearned revenue represents amounts that have been invoiced in advance of revenue recognition and is recognized as revenue when transfer of control to customers has occurred or services have been provided. The unearned revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. The Company generally invoices customers in annual installments. The unearned 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.

The change in unearned revenue was as follows (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Unearned revenue, beginning of period	\$ 7,142	\$ 5,883	\$ 8,564	\$ 6,995
Billings and other*	3,886	2,870	9,996	7,956
Contribution from contract asset	61	11	112	36
Revenue recognized ratably over time	(4,047)	(3,169)	(11,270)	(9,093)
Revenue recognized over time as delivered	(184)	(161)	(530)	(460)
Revenue recognized at a point in time	(282)	(62)	(447)	(126)
Unearned revenue from business combinations	282	4	433	68
Unearned revenue, end of period	\$ 6,858	\$ 5,376	\$ 6,858	\$ 5,376

*Other includes, for example, the impact of foreign currency translation

Revenue recognized ratably over time is generally billed in advance and includes Cloud Services, the related support and advisory services. The majority of revenue recognized for these services is from the beginning of period unearned revenue balance.

Revenue recognized over time as delivered includes professional services billed on a time and materials basis, fixed fee professional services and training classes that are primarily billed, delivered and recognized within the same reporting period.

Revenue recognized at a point in time substantially consists of on-premise software licenses.

Remaining Performance Obligation

Transaction price allocated to the remaining performance obligation, referred to by the Company as remaining performance obligation, represents contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price allocated to the remaining performance obligation is influenced by several factors, including seasonality, the timing of renewals, the timing of delivery of software licenses, average contract terms and foreign currency exchange rates. Unbilled portions of the remaining performance obligation denominated in foreign currencies are revalued each period based on the period end exchange rates. Unbilled portions of the remaining performance obligation are subject to future economic risks including bankruptcies, regulatory changes and other market factors.

The Company excludes amounts related to performance obligation that are billed and recognized as they are delivered. This primarily consists of professional services contracts that are on a time-and-materials basis.

The majority of the Company's noncurrent remaining performance obligation is expected to be recognized in the next 13 to 36 months.

Remaining performance obligation consisted of the following (in billions):

	Current	Noncurrent	Total
As of October 31, 2019 (1)	\$ 12.8	\$ 13.1	\$ 25.9
As of January 31, 2019	\$ 11.9	\$ 13.8	\$ 25.7

(1) Includes approximately \$400 million and \$550 million of remaining performance obligation related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively.

3. Investments

Marketable Securities

At October 31, 2019, marketable securities consisted of the following (in millions):

<u>Investments classified as Marketable Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Corporate notes and obligations	\$ 1,555	\$ 5	\$ (1)	\$ 1,559
U.S. treasury securities	302	1	0	303
Mortgage backed obligations	91	0	0	91
Asset backed securities	455	1	0	456
Municipal securities	111	1	0	112
Foreign government obligations	52	0	0	52
U.S. agency obligations	12	0	0	12
Time deposits	3	0	0	3
Covered bonds	73	0	0	73
Total marketable securities	<u>\$ 2,654</u>	<u>\$ 8</u>	<u>\$ (1)</u>	<u>\$ 2,661</u>

At January 31, 2019, marketable securities consisted of the following (in millions):

<u>Investments classified as Marketable Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Corporate notes and obligations	\$ 1,027	\$ 0	\$ (8)	\$ 1,019
U.S. treasury securities	89	0	(1)	88
Mortgage backed obligations	79	0	(1)	78
Asset backed securities	245	0	(1)	244
Municipal securities	104	0	0	104
Foreign government obligations	58	0	(1)	57
U.S. agency obligations	4	0	0	4
Time deposits	4	0	0	4
Covered bonds	75	0	0	75
Total marketable securities	<u>\$ 1,685</u>	<u>\$ 0</u>	<u>\$ (12)</u>	<u>\$ 1,673</u>

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

	<u>As of</u>	
	<u>October 31, 2019</u>	<u>January 31, 2019</u>
Due within 1 year	\$ 1,196	\$ 482
Due in 1 year through 5 years	1,463	1,189
Due in 5 years through 10 years	2	2
	<u>\$ 2,661</u>	<u>\$ 1,673</u>

As of October 31, 2019, the following marketable securities were in an unrealized loss position (in millions):

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Corporate notes and obligations	\$ 0	\$ 0	\$ 98	\$ (1)	\$ 98	\$ (1)

The unrealized losses for each of the fixed rate marketable securities were less than \$1 million. The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of October 31, 2019, such as the Company's intent to hold the investment and whether it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized basis. The Company expects to receive the full principal and interest on all of these marketable securities.

Investment Income

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Interest income	\$ 32	\$ 13	\$ 89	\$ 45
Realized gains	0	0	1	1
Realized losses	0	0	(1)	(5)
Investment income	<u>\$ 32</u>	<u>\$ 13</u>	<u>\$ 89</u>	<u>\$ 41</u>

Strategic Investments

Strategic investments by form and measurement category as of October 31, 2019 were as follows (in millions):

	Measurement Category			
	Fair Value	Measurement Alternative	Other	Total
Equity securities	\$ 365	\$ 1,317	\$ 41	\$ 1,723
Debt securities	0	0	37	37
Balance as of October 31, 2019	<u>\$ 365</u>	<u>\$ 1,317</u>	<u>\$ 78</u>	<u>\$ 1,760</u>

Strategic investments by form and measurement category as of January 31, 2019 were as follows (in millions):

	Measurement Category			
	Fair Value	Measurement Alternative	Other	Total
Equity securities	\$ 436	\$ 785	\$ 50	\$ 1,271
Debt securities	0	0	31	31
Balance as of January 31, 2019	<u>\$ 436</u>	<u>\$ 785</u>	<u>\$ 81</u>	<u>\$ 1,302</u>

Measurement Alternative Adjustments

The components of privately held equity securities accounted for under the measurement alternative included in the table above are presented below (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Carrying amount, beginning of period	\$ 917	\$ 667	\$ 785	\$ 548
Adjustments related to privately held equity securities:				
Net additions (1)	322	25	333	55
Upward adjustments	81	20	253	132
Impairments and downward adjustments	(3)	(1)	(54)	(24)
Carrying amount, end of period	<u>\$ 1,317</u>	<u>\$ 711</u>	<u>\$ 1,317</u>	<u>\$ 711</u>

(1) Net additions includes additions from purchases and reductions due to exits of securities and reclassifications due to changes to capital structure.

Since the adoption of ASU 2016-01 on February 1, 2018, cumulative impairments and downward adjustments were \$86 million and cumulative upward adjustments were \$427 million through October 31, 2019.

Gains (losses) on strategic investments, net

The components of gains and losses on strategic investments are presented below (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Unrealized gains (losses) recognized on publicly traded equity securities, net	\$ (84)	\$ (14)	\$ 132	\$ 262
Unrealized gains recognized on privately held equity securities, net	77	18	199	99
Realized gains on sales of equity securities, net	14	59	76	68
Losses on debt securities, net	(1)	0	(11)	(12)
Gains on strategic investments, net	\$ 6	\$ 63	\$ 396	\$ 417

Realized gains on sales of equity securities, net reflects the difference between the sale proceeds and the carrying value of the equity security at the beginning of the period or the purchase date, if later. The cumulative net gain, measured as the sale price less the initial purchase price, for equity securities exited during the three and nine months ended October 31, 2019 was \$152 million and \$336 million, respectively. During the three months ended October 31, 2019, the Company sold its investments in three publicly traded companies resulting in a realized loss of \$32 million, and a cumulative net gain of \$110 million.

Net gains (losses) recognized in the three and nine months ended October 31, 2019 for investments still held as of October 31, 2019 were a loss of \$9 million and a gain of \$283 million, respectively.

In September 2019, the Company made a strategic investment of \$300 million in cash for preferred shares of a technology company in a private placement. The investment was made as part of the Company's overall strategy of investing in complementary companies to facilitate potential alignment and integration into the Company's offerings or product features. The investment is accounted for using the measurement alternative.

4. Derivatives

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

	As of	
	October 31, 2019	January 31, 2019
Notional amount of foreign currency derivative contracts	\$ 4,589	\$ 4,496
Fair value of foreign currency derivative contracts	2	25

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

		As of	
		October 31, 2019	January 31, 2019
Derivative Assets			
Foreign currency derivative contracts	Prepaid expenses and other current assets	\$ 55	\$ 42
Derivative Liabilities			
Foreign currency derivative contracts	Accounts payable, accrued expenses and other liabilities	\$ 53	\$ 17

Gains (losses) on derivative instruments not designated as hedging instruments recorded in other income in the condensed consolidated statements of operations are summarized below (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Foreign currency derivative contracts	\$ (34)	\$ 14	\$ (10)	\$ 25

5. Fair Value Measurement

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

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

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

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

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

The following table presents information about the Company's assets that are measured at fair value as of October 31, 2019 and indicates the fair value hierarchy of the valuation (in millions):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of October 31, 2019
Cash equivalents (1):				
Time deposits	\$ 0	\$ 654	\$ 0	\$ 654
Money market mutual funds	1,573	0	0	1,573
Marketable securities:				
Corporate notes and obligations	0	1,559	0	1,559
U.S. treasury securities	0	303	0	303
Mortgage backed obligations	0	91	0	91
Asset backed securities	0	456	0	456
Municipal securities	0	112	0	112
Foreign government obligations	0	52	0	52
U.S. agency obligations	0	12	0	12
Time deposits	0	3	0	3
Covered bonds	0	73	0	73
Strategic investments:				
Publicly held equity securities	365	0	0	365
Foreign currency derivative contracts (2)	0	55	0	55
Total assets	<u>\$ 1,938</u>	<u>\$ 3,370</u>	<u>\$ 0</u>	<u>\$ 5,308</u>
Liabilities:				
Foreign currency derivative contracts (3)	0	53	0	53
Total liabilities	<u>\$ 0</u>	<u>\$ 53</u>	<u>\$ 0</u>	<u>\$ 53</u>

(1) Included in "cash and cash equivalents" in the accompanying condensed consolidated balance sheet as of October 31, 2019, in addition to \$1.6 billion of cash.

(2) Included in "prepaid expenses and other current assets" in the accompanying condensed consolidated balance sheet as of October 31, 2019.

(3) Included in "accounts payable, accrued expenses and other liabilities" in the accompanying condensed consolidated balance sheet as of October 31, 2019.

The following table presents information about the Company's assets that are measured at fair value as of January 31, 2019 and indicates the fair value hierarchy of the valuation (in millions):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 31, 2019
Cash equivalents (1):				
Time deposits	\$ 0	\$ 314	\$ 0	\$ 314
Money market mutual funds	1,234	0	0	1,234
Marketable securities:				
Corporate notes and obligations	0	1,019	0	1,019
U.S. treasury securities	0	88	0	88
Mortgage backed obligations	0	78	0	78
Asset backed securities	0	244	0	244
Municipal securities	0	104	0	104
Foreign government obligations	0	57	0	57
U.S. agency obligations	0	4	0	4
Time deposits	0	4	0	4
Covered bonds	0	75	0	75
Strategic investments:				
Publicly held equity securities	436	0	0	436
Foreign currency derivative contracts (2)	0	42	0	42
Total assets	\$ 1,670	\$ 2,029	\$ 0	\$ 3,699
Liabilities:				
Foreign currency derivative contracts (3)	0	17	0	17
Total liabilities	\$ 0	\$ 17	\$ 0	\$ 17

- (1) Included in "cash and cash equivalents" in the accompanying condensed consolidated balance sheet in addition to \$1.1 billion of cash.
(2) Included in "prepaid expenses and other current assets" in the accompanying condensed consolidated balance sheet.
(3) Included in "accounts payable, accrued expenses and other liabilities" in the accompanying condensed consolidated balance sheet.

Strategic investments measured and recorded at fair value on a non-recurring basis

The Company's privately held debt and equity securities and equity method investments are recorded at fair value on a non-recurring basis. The estimation of fair value for these investments requires the use of significant unobservable inputs, and as a result, the Company classifies these assets as Level 3 within the fair value hierarchy. For example, the Company's privately held equity securities that have been remeasured are classified within Level 3 in the fair value hierarchy because the value is based on valuation methods using the observable transaction price and other unobservable inputs including the volatility, rights, and obligations of the securities the Company holds. The Company's privately held debt and equity securities and equity method investments amounted to \$1.4 billion as of October 31, 2019 and \$0.9 billion as of January 31, 2019.

6. Business Combinations

Tableau Software Inc.

In August 2019, the Company acquired all outstanding stock of Tableau Software, Inc. (“Tableau”) which provides a self-service analytics platform that enables users to easily access, prepare, analyze, and present findings in their data. The Company has included the financial results of Tableau in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were approximately \$40 million and were recorded in general and administrative expense. The preliminary acquisition date fair value of the consideration transferred for Tableau was approximately \$14.8 billion, which consisted of the following (in millions):

	Fair Value
Cash	\$ 1
Common stock issued	14,552
Fair value of stock options and restricted stock awards assumed	292
Total	\$ 14,845

The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 1.103 was applied to convert Tableau's outstanding equity awards for Tableau's common stock into equity awards for shares of the Company's common stock.

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

	Fair Value
Cash and cash equivalents	\$ 644
Marketable securities	456
Accounts receivable	172
Contract asset	131
Operating lease right-of-use assets	361
Other assets	116
Acquired customer contract asset	56
Goodwill	10,723
Intangible assets	3,252
Accounts payable, accrued expenses and other liabilities	(250)
Unearned revenue	(242)
Operating lease liabilities	(332)
Deferred tax liability	(242)
Net assets acquired	\$ 14,845

The excess of purchase consideration over the fair value of liabilities assumed was recorded as goodwill, which is primarily attributed to the assembled workforce and expanded market opportunities, for which there is no basis for U.S. income tax purposes. The fair values assigned to tangible assets acquired and liabilities assumed are preliminary based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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

	Fair Value	Useful Life
Developed technology	\$ 2,000	5 years
Customer relationships	1,231	8 years
Other purchased intangible assets	21	1 year
Total intangible assets subject to amortization	\$ 3,252	

Developed technology represents the preliminary estimated fair value of Tableau's data analysis technologies. Customer relationships represent the preliminary estimated fair values of the underlying relationships with Tableau customers.

The Company assumed unvested stock options and restricted stock awards with a preliminary estimated fair value of \$1.5 billion. Of the total consideration, \$292 million was preliminarily allocated to the purchase consideration and \$1.2 billion was preliminarily allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

The amounts of revenue and earnings of Tableau included in the Company's condensed consolidated statement of operations from the acquisition date of August 1, 2019 to October 31, 2019 are as follows (in millions):

Total revenues	\$	327
Pretax loss		(251)

The following pro forma financial information summarizes the combined results of operations for the Company and Tableau, as though the companies were combined as of the beginning of the Company's fiscal 2019.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Total revenues	\$ 4,513	\$ 3,637	\$ 12,748	\$ 10,367
Pretax income (loss)	(20)	(130)	88	(73)
Net income (loss)	(27)	(175)	52	(1)

The pro forma financial information for all periods presented above has been calculated after adjusting the results of Tableau to reflect the business combination accounting effects resulting from this acquisition, including the amortization expense from acquired intangible assets and the stock-based compensation expense for unvested stock options and restricted stock awards assumed as though the acquisition occurred as of the beginning of the Company's fiscal year 2019. The historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination and factually supportable. The pro forma financial information is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company's fiscal 2019.

The pro forma financial information for the three and nine months ended October 31, 2019 and 2018 combines the historical results of the Company for the three and nine months ended October 31, 2019 and 2018, the adjusted historical results of Tableau for the six months ended June 30, 2019 and the three and nine months ended September 30, 2018, considering the differences in reporting periods and the date the Company acquired Tableau, and the effects of the pro forma adjustments listed above. Prior to being acquired, Tableau's fiscal year concluded on December 31.

ClickSoftware Technologies, Ltd.

In October 2019, the Company acquired all outstanding stock of ClickSoftware Technologies, Ltd. ("ClickSoftware"), which provides field service management solutions. The Company has included the financial results of ClickSoftware, which were not material, in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material. The acquisition date fair value of the consideration transferred for ClickSoftware was approximately \$1.4 billion, which consisted of the following (in millions):

	Fair Value
Cash	\$ 587
Common stock issued	663
Fair value of stock options assumed	81
Fair value of pre-existing relationship	55
Total	\$ 1,386

The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.109592 was applied to convert ClickSoftware's outstanding equity awards for ClickSoftware's common stock into equity awards for shares of the Company's common stock.

The following table summarizes the preliminary fair value of assets acquired and liabilities assumed as of the date of acquisition (in millions):

	Fair Value
Cash and cash equivalents	\$ 38
Accounts receivable	28
Goodwill	1,126
Intangible assets	276
Other assets	33
Accounts payable, accrued expenses and other liabilities, current and noncurrent	(49)
Unearned revenue	(40)
Deferred tax liability	(26)
Net assets acquired	\$ 1,386

The excess of purchase consideration over the fair value of net liabilities assumed was recorded as goodwill, which is primarily attributed to the assembled workforce and expanded market opportunities, for which there is no basis for U.S. income tax purposes. The fair values assigned to tangible assets acquired and liabilities assumed are preliminary based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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

	Fair Value	Useful Life
Developed technology	\$ 215	4 years
Customer relationships	\$ 61	8 years
Total intangible assets subject to amortization	\$ 276	

Developed technology represents the fair value of ClickSoftware's field service management technology. Customer relationships represent the fair values of the underlying relationships with ClickSoftware customers.

The Company assumed unvested options with a fair value of \$103 million. Of the total consideration, \$81 million was allocated to the purchase consideration and \$22 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

The Company invested \$14 million in a noncontrolling equity investment in ClickSoftware in July 2015. The Company recognized a gain of approximately \$39 million as a result of remeasuring its prior equity interest in ClickSoftware held before the business combination. The gain is included in gains on strategic investments, net in the condensed consolidated statement of operations.

Salesforce.org

In June 2019, Salesforce.org, the independent nonprofit social enterprise that resold the Company's service offerings to non-profit and higher education organizations, was combined with the Company. The Company has included the financial results of Salesforce.org, which are not material to income from operations in the three and nine months ended October 31, 2019, in the condensed consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material.

The Company paid a one-time cash payment of \$300 million for all shares of Salesforce.org to the independent, non-consolidated Salesforce.com Foundation (also referred to as the Foundation), which is considered a related party as discussed in Note 14 "Related-Party Transactions."

Prior to the business combination, the Company and Salesforce.org had existing reseller and resource sharing agreements that, among other things, allowed Salesforce.org the right to resell select Company offerings and related upgraded support to non-profit organizations and for-profit and non-profit educational institutions free of charge or at discounted prices. Both agreements were effectively settled upon consummation of the business combination.

Using an income approach, the Company assessed the contractual terms and conditions of the reseller agreement as compared to current market conditions, such as the cost to service contracts sold under the reseller agreement, and determined that the terms were not at fair value. Specifically, the reseller agreement provided favorable terms to Salesforce.org by providing the Company's products and services at no cost. As a result, the Company recorded a non-cash charge of approximately \$166 million within operating expenses on the date the transaction closed. The loss represents the difference

between the value of the remaining performance obligation recorded by Salesforce.org under the reseller agreement and the value of the remaining performance obligation if those same contracts had been sold at fair value.

The following table summarizes the business combination (in millions):

Cash	\$	300
Loss on settlement of Salesforce.org reseller agreement		(166)
Total	\$	134

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

	Fair Value
Cash and cash equivalents	\$ 54
Deferred tax asset	59
Other current and noncurrent assets	46
Goodwill	164
Accounts payable, accrued expenses and other liabilities, current and noncurrent	(39)
Unearned revenue	(138)
Deferred income taxes and income taxes payable	(12)
Net assets acquired	\$ 134

The excess of purchase consideration over the fair value of net liabilities assumed was recorded as goodwill, which is primarily attributed to the assembled workforce and expanded market opportunities, for which there is no basis for U.S. income tax purposes. The fair values assigned to tangible assets acquired and liabilities assumed are based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

During the third quarter of fiscal 2020, the Company obtained additional information related to the acquired deferred tax asset and accordingly adjusted the fair value of this asset by \$12 million. This adjustment resulted in a corresponding increase in the acquired deferred income taxes and income taxes payable. This adjustment did not result in a change to goodwill.

MapAnything

In May 2019, the Company acquired all outstanding stock of MapAnything, Inc. ("MapAnything"), which integrates map-based visualization, asset tracking and route optimization for field sales and service teams. The Company has included the financial results of MapAnything, which are not material, in the condensed consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were not material.

The acquisition date fair value of the consideration transferred for MapAnything was approximately \$213 million, which consisted of cash and the fair value of stock options and restricted stock awards assumed. The Company recorded approximately \$53 million for developed technology and customer relationships with estimated useful lives of four to five years. The Company recorded approximately \$152 million of goodwill which is primarily attributed to the assembled workforce and expanded market opportunities from integrating MapAnything's technology with the Company's other offerings. The majority of the goodwill balance is not deductible for U.S. income tax purposes. The fair values assigned to tangible assets acquired and liabilities assumed are based on management's estimates and assumptions and may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

The Company invested \$23 million in a noncontrolling equity investment in MapAnything prior to the acquisition. The Company recognized a gain of approximately \$9 million as a result of remeasuring its prior equity interest in MapAnything held before the business combination. The gain is included in gains on strategic investments, net in the condensed consolidated statement of operations.

7. Intangible Assets Acquired Through Business Combinations and Goodwill

Intangible assets acquired through business combinations

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

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Remaining Useful Life (Years)
	January 31, 2019	Additions and retirements, net	October 31, 2019	January 31, 2019	Expense and retirements, net	October 31, 2019	January 31, 2019	October 31, 2019	
Acquired developed technology	\$ 1,429	\$ 2,248	\$ 3,677	\$ (889)	\$ (280)	\$ (1,169)	\$ 540	\$ 2,508	4.3
Customer relationships	1,938	1,317	3,255	(560)	(233)	(793)	1,378	2,462	6.7
Other (1)	52	21	73	(47)	(9)	(56)	5	17	1.1
Total	<u>\$ 3,419</u>	<u>\$ 3,586</u>	<u>\$ 7,005</u>	<u>\$ (1,496)</u>	<u>\$ (522)</u>	<u>\$ (2,018)</u>	<u>\$ 1,923</u>	<u>\$ 4,987</u>	5.5

(1) Included in other are trade names, trademarks and territory rights.

Amortization of intangible assets resulting from business combinations for the three months ended October 31, 2019 and 2018 was \$266 million and \$129 million, respectively, and for the nine months ended October 31, 2019 and 2018 was \$522 million and \$317 million, respectively.

The expected future amortization expense for intangible assets as of October 31, 2019 is as follows (in millions):

Fiscal Period:

Remaining three months of Fiscal 2020	\$ 270
Fiscal 2021	1,055
Fiscal 2022	981
Fiscal 2023	833
Fiscal 2024	750
Thereafter	1,098
Total amortization expense	<u>\$ 4,987</u>

Customer contract assets acquired through business combinations

Customer contract assets resulting from business combinations reflects the fair value of future billings of amounts that are contractually committed by acquired companies' existing customers as of the acquisition date. Customer contract assets are amortized over the corresponding contract terms. Customer contract assets resulting from business combinations at October 31, 2019 were \$120 million, including \$56 million resulting from the Tableau acquisition in August 2019, and \$121 million at January 31, 2019, respectively, and are included in other assets on the condensed consolidated balance sheets.

Goodwill

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

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

Balance as of January 31, 2019	\$ 12,851
Tableau	10,723
ClickSoftware	1,126
Salesforce.org	164
MapAnything	152
Other acquisitions and adjustments (1)	6
Balance as of October 31, 2019	<u>\$ 25,022</u>

(1) Adjustments include adjustments of acquisition date fair value, including the effect of foreign currency translation.

8. Debt

The carrying values of the Company's borrowings were as follows (in millions):

Instrument	Date of issuance	Maturity date	Effective interest rate for the three months ended October 31, 2019	October 31, 2019	January 31, 2019
2021 Term Loan	May 2018	May 2021	2.87%	\$ 150 (1)	\$ 499
2023 Senior Notes	April 2018	April 2023	3.26%	994	993
2028 Senior Notes	April 2018	April 2028	3.70%	1,489	1,488
Loan assumed on 50 Fremont	February 2015	June 2023	3.75%	194	196
Total carrying value of debt				2,827	3,176
Less current portion of debt				(3)	(3)
Total noncurrent debt				\$ 2,824	\$ 3,173

(1) The Company repaid \$200 million in June 2019 and \$150 million in October 2019 of the 2021 Term Loan.

Each of the Company's debt agreements requires it to maintain compliance with certain debt covenants, all of which the Company was in compliance with as of October 31, 2019.

The expected future principal payments for all borrowings as of October 31, 2019 is as follows (in millions):

Fiscal period:

Remaining three months of Fiscal 2020	\$ 1
Fiscal 2021	4
Fiscal 2022	154
Fiscal 2023	4
Fiscal 2024	1,182
Thereafter	1,500
Total principal outstanding	\$ 2,845

Revolving Credit Facility

In April 2018, the Company entered into a Second Amended and Restated Credit Agreement ("Revolving Loan Credit Agreement") with Wells Fargo Bank, National Association, and certain other institutional lenders that provides for \$1.0 billion unsecured revolving credit facility ("Credit Facility") that matures in April 2023. The Revolving Loan Credit Agreement amended and restated the Company's existing revolving credit facility dated July 2016. The Company may use the proceeds of future borrowings under the Credit Facility for refinancing other indebtedness, working capital, capital expenditures and other general corporate purposes, including permitted acquisitions.

There were no outstanding borrowings under the Credit Facility as of October 31, 2019. The Company continues to pay a commitment fee on the available amount of the Credit Facility, which is included within other expense in the Company's condensed consolidated statement of operations.

Interest Expense on Debt

The following table sets forth total interest expense recognized related to debt (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Contractual interest expense	\$ 26	\$ 32	\$ 82	\$ 74
Amortization of debt issuance costs	1	1	3	14
Amortization of debt discount	0	0	0	4
	\$ 27	\$ 33	\$ 85	\$ 92

9. Stockholders' Equity

The fair value of the Company's stock options and ESPP shares was estimated on the date of grant and the first day of the ESPP purchase period, respectively, using the Black-Scholes option pricing model. The weighted-average fair value per share for stock options grants, excluding assumed awards, was \$35.31 and \$39.65 in the three and nine months ended October 31, 2019, respectively, compared to \$35.44 and \$28.84 in the three and nine months ended October 31, 2018, respectively.

ESPP assumptions and the related fair value per share table are disclosed in the three month period in which there is ESPP activity, such as an ESPP purchase. The Company's ESPP allows for two purchases during the fiscal year, one during the second quarter and one during the fourth quarter. The estimated life of the ESPP will be based on the two purchase periods within each offering period. The weighted-average fair value per share for ESPP shares was \$38.88 in the three months ended July 31, 2019.

Stock option activity for the nine months ended October 31, 2019 is as follows:

	Options Outstanding		
	Outstanding Stock Options (in millions)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in millions)
Balance as of January 31, 2019	26	\$ 74.15	
Options granted under all plans	10	131.92	
Exercised	(5)	57.53	
Canceled	(1)	113.16	
Balance as of October 31, 2019	30	\$ 93.81	\$ 1,907
Vested or expected to vest	28	\$ 90.70	\$ 1,866
Exercisable as of October 31, 2019	16	\$ 62.63	\$ 1,467

The following table summarizes information about stock options outstanding as of October 31, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares (in millions)	Weighted-Average Exercise Price
\$0.27 to \$52.30	6	4.0	\$ 26.34	6	\$ 27.65
\$54.36 to \$75.57	7	3.3	67.63	5	65.95
\$76.48 to \$113.00	4	3.9	83.71	3	82.13
\$118.04	5	5.3	118.04	2	118.04
\$122.03 to \$157.70	3	6.5	144.03	0	0.00
\$161.50	5	6.4	161.50	0	0.00
	30	4.7	\$ 93.81	16	\$ 62.63

Restricted stock activity for the nine months ended October 31, 2019 is as follows:

	Restricted Stock Outstanding		
	Outstanding (in millions)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Balance as of January 31, 2019	21	\$ 103.33	
Granted - restricted stock units and awards	19	155.19	
Granted - performance-based stock units	1	161.50	
Canceled	(2)	116.83	
Vested and converted to shares	(9)	105.03	
Balance as of October 31, 2019	30	\$ 135.66	\$ 4,755
Expected to vest	26		\$ 4,099

During the nine months ended October 31, 2019, the Company recognized stock-based expense related to its equity plans for employees and non-employee directors of \$1.3 billion. As of October 31, 2019, the aggregate stock compensation remaining to be amortized to costs and expenses was approximately \$4.2 billion. The Company will amortize this stock compensation

balance as follows: \$512 million during the remaining three months of fiscal 2020; \$1.6 billion during fiscal 2021; \$1.2 billion during fiscal 2022; \$729 million during fiscal 2023; and \$143 million during fiscal 2024. The expected amortization reflects only outstanding stock awards as of October 31, 2019 and assumes no forfeiture activity. The aggregate stock compensation remaining to be amortized to costs and expenses will be recognized over a remaining weighted average period of two years.

Shares reserved and available for future issuance as of October 31, 2019 and January 31, 2019 were 141 million shares and 115 million shares, respectively.

10. Income Taxes

Effective Tax Rate

The Company computes its year-to-date provision for income taxes by applying the estimated annual effective tax rate to year-to-date pretax income or loss and adjusts the provision for discrete tax items recorded in the period. For the nine months ended October 31, 2019, the Company reported a tax provision of \$336 million on a pretax income of \$710 million, which resulted in an effective tax rate of 47 percent. The Company's effective tax rate differs from the U.S. statutory rate of 21 percent primarily due to profitable jurisdictions outside of the United States subject to tax rates greater than 21 percent and certain effects from acquisitions, offset by excess tax benefits from stock-based compensation.

For the nine months ended October 31, 2018, the Company reported a tax benefit of \$4 million on a pretax income of \$744 million, which resulted in a negative effective tax rate of 1 percent. Included in this tax amount was a discrete tax benefit of \$140 million from a partial release of the valuation allowance in connection with the acquisition of MuleSoft. The net deferred tax liability from the acquisition of MuleSoft provided a source of additional income to support the realizability of the Company's pre-existing deferred tax assets and, as a result, the Company released a portion of its valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside of the United States.

Unrecognized Tax Benefits and Other Considerations

The Company records liabilities related to its uncertain tax positions. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. Certain prior year tax returns are currently being examined or reviewed by various taxing authorities in countries including the United States and France. In March 2017, the Company received the final notice of proposed adjustments primarily related to transfer pricing issues from the Internal Revenue Service. The Company has been appealing the proposed adjustments and is awaiting the final outcome. The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. As the outcome of the tax audits cannot be predicted with certainty, if any issues arising in the Company's tax audits progress in a manner inconsistent with management's expectations, the Company could adjust its provision for income taxes in the future. In addition, the Company anticipates it is reasonably possible that certain U.S. and non-U.S. tax matters may be effectively settled or the statute of limitations may lapse in the next 12 months, which may decrease its unrecognized tax benefits up to approximately \$17 million.

11. Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the fiscal period. Diluted earnings per share is computed by giving effect to all potential weighted average dilutive common stock, including options, restricted stock units, warrants and the convertible senior notes. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Numerator:				
Net income (loss)	\$ (109)	\$ 105	\$ 374	\$ 748
Denominator:				
Weighted-average shares outstanding for basic earnings per share	879	760	809	746
Effect of dilutive securities:				
Convertible senior notes which matured in April 2018	0	0	0	1
Employee stock awards	0	25	20	22
Warrants which settled in June and July 2018	0	0	0	3
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share	879	785	829	772

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Employee stock awards	28	1	6	4

12. Leases and Other Commitments

Leases

The Company has operating leases for corporate offices, data centers, and equipment under non-cancelable operating leases with various expiration dates. The leases have remaining terms of 1 year to 23 years, some of which include options to extend for up to 5 years, and some of which include options to terminate within 1 year.

The components of lease expense were as follows (in millions):

	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2019
Operating lease cost	\$ 230	\$ 653
Finance lease cost:		
Amortization of right-of-use assets	\$ 16	\$ 49
Interest on lease liabilities	4	15
Total finance lease cost	\$ 20	\$ 64

Supplemental cash flow information related to operating and finance leases was as follows (in millions):

	Three Months Ended October 31, 2019	Nine Months Ended October 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows for operating leases	\$ 223	\$ 614
Operating cash outflows for finance leases	3	11
Financing cash outflows for finance leases	14	150
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	70	400

Supplemental balance sheet information related to operating and finance leases was as follows (in millions):

	As of October 31, 2019
Operating leases:	
Operating lease right-of-use assets	\$ 3,150
Operating lease liabilities, current	\$ 735
Noncurrent operating lease liabilities	2,535
Total operating lease liabilities	\$ 3,270
Finance leases:	
Buildings and building improvements	\$ 325
Computers, equipment and software	468
Accumulated depreciation	(388)
Property and equipment, net	\$ 405
Accrued expenses and other liabilities	\$ 65
Other noncurrent liabilities	334
Total finance lease liabilities	\$ 399

Other information related to leases was as follows:

	As of October 31, 2019
Weighted average remaining lease term	
Operating leases	7 years
Finance leases	18 years
Weighted average discount rate	
Operating leases	2.8 %
Finance leases	4.5 %

The weighted average remaining lease term for real estate leases with multiple floors with different lease end dates is calculated based on the lease end date for each individual floor.

As of October 31, 2019, the maturities of lease liabilities under non-cancelable operating and finance leases are as follows (in millions):

	Operating Leases	Finance Leases
Fiscal Period:		
Remaining three months of Fiscal 2020	\$ 192	\$ 18
Fiscal 2021	792	67
Fiscal 2022	590	23
Fiscal 2023	424	23
Fiscal 2024	343	24
Thereafter	1,297	434
Total minimum lease payments	3,638	589
Less: Imputed interest	(368)	(190)
Total	\$ 3,270	\$ 399

Operating lease amounts above do not include sublease income. The Company has entered into various sublease agreements with third parties. Under these agreements, the Company expects to receive sublease income of approximately \$10 million in the remainder of fiscal 2020, \$135 million in the next four years and \$82 million thereafter.

The Company's lease terms may include options to extend or terminate the lease. These options are reflected in the Company's future contractual obligations when it is reasonably certain that the Company will exercise that option. The Company did not use hindsight when determining lease term, therefore, as of October 31, 2019, renewal options are only included for the Company's finance lease for 350 Mission.

As of October 31, 2019, the Company has additional operating leases that have not yet commenced totaling \$2.5 billion and therefore not reflected on the condensed consolidated balance sheet and tables above. These operating leases include agreements for office facilities to be constructed. These operating leases will commence between fiscal year 2021 and fiscal year 2025 with lease terms of 1 to 21 years.

Of the total operating lease commitment balance, including leases not yet commenced, of \$6.1 billion, approximately \$5.5 billion is related to facilities space. The remaining commitment amount is primarily related to equipment.

Letters of Credit

As of October 31, 2019, the Company had a total of \$100 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through 2033.

13. Legal Proceedings and Claims

In the ordinary course of business, the Company is or may be involved in various legal or regulatory proceedings, claims or purported class actions related to alleged infringement of third-party patents and other intellectual property rights, commercial, corporate and securities, labor and employment, wage and hour and other claims. The Company has 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.

In December 2018, the Company was named as a nominal defendant and certain of its current and former directors were named as defendants in a purported shareholder derivative action in the Delaware Court of Chancery. The complaint alleged that excessive compensation was paid to such directors for their service, included claims of breach of fiduciary duty and unjust enrichment, and sought restitution and disgorgement of a portion of the directors' compensation. Subsequently, three similar shareholder derivative actions were filed in the Delaware Court of Chancery. The cases have been consolidated under the caption *In re Salesforce.com, Inc. Derivative Litigation*. The Company believes that the ultimate outcome of this litigation will not materially and adversely affect its business, financial condition, results of operations or cash flows.

Tableau Litigation

In July and August 2017, two substantially similar securities class action complaints were filed against Tableau Software, Inc. ("Tableau") and two of its now former executive officers. The first complaint was filed in the U.S. District for the Southern District of New York (the "Scheufele Action"). The second complaint was filed in the U.S. District Court for the Western District of Washington and was voluntarily dismissed on October 17, 2017. In December 2017, the lead plaintiff in the Scheufele Action filed an amended complaint, which alleged that between February 5, 2015 and February 4, 2016, Tableau and certain of its executive officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, in connection with statements regarding Tableau's business and operations by allegedly failing to disclose that product launches and software upgrades by competitors were negatively impacting Tableau's competitive position and profitability. The amended complaint sought unspecified damages, interest, attorneys' fees and other costs. In February 2018, the lead plaintiff filed a second amended complaint (the "SAC"), which contains substantially similar allegations as the amended complaint, and added as defendants two of Tableau's now former executive officers and directors. Defendants filed a motion to dismiss the SAC in March 2018, which was denied in February 2019. Defendants filed an answer to the SAC in March 2019, and subsequently amended their answer in April 2019.

In August 2018, Tableau was named as a nominal defendant in a purported shareholder derivative action in the United States District Court for the District of Delaware, allegedly on behalf of and for the benefit of Tableau, against certain of its now former directors and officers. The derivative action arises out of many of the factual allegations at issue in the Scheufele Action, and generally alleges that the individual defendants breached fiduciary duties owed to Tableau. The complaint seeks unspecified damages and equitable relief, attorneys' fees, costs and expenses. The case is currently stayed.

In July 2019, three civil actions were filed against Tableau and each of the members of Tableau's board of directors as of the dates of the complaints asserting claims under Sections 14(e), 14(d), and 20(a) of the Exchange Act challenging the adequacy of certain public disclosures made by Tableau concerning its proposed transaction with Salesforce. Salesforce was named as a defendant in one of these three actions. Specifically, Shiva Stein, a purported Tableau stockholder, commenced an action in the United States District Court for the District of Delaware (the "Stein Action"); Marcy Curtis, a purported Tableau stockholder, commenced a putative class action in the United States District Court for the District of Delaware (the "Curtis Action"); and Cathy O'Brien, a purported Tableau stockholder, commenced an action in the United States District Court for the Southern District of New York (the "O'Brien Action"). Salesforce was named as a defendant in the Curtis Action. The

plaintiffs seek, among other things, an injunction that would have prevented the acquisition of Tableau by Salesforce, rescission of the transaction or rescissory damages, an accounting by the defendants for all damages caused to the plaintiffs, and the award of attorneys' fees and expenses. Tableau has not answered the complaint in the Curtis, or O'Brien Actions, and Salesforce has not answered the complaint in the Curtis Action. The Company settled these three civil actions during the quarter ended October 31, 2019. All three cases are now dismissed.

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

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. The outcomes of legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, the Company is not able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces, and the Company's estimates may not prove to be accurate.

In management's opinion, resolution of all current matters is not expected to have a material adverse impact on the Company's condensed consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute or other contingency, an unfavorable resolution of a matter could materially affect the Company's current or future results of operations or cash flows, or both, in a particular quarter.

14. Related-Party Transactions

In January 1999, the Foundation was chartered on an idea of leveraging the Company's people, technology and resources to help improve communities around the world. The Company calls this integrated philanthropic approach the 1-1-1 model. Beginning in 2008, Salesforce.org, which was a non-profit public benefit corporation, was established to resell the Company's services to non-profit organizations and certain higher education organizations. As discussed in Note 6, in June 2019, the Company completed a business combination with Salesforce.org.

The Company's Chairman is the chairman of the Foundation and, prior to the closing of the business combination, was the chairman of Salesforce.org. The Company's Chairman holds one of the three Foundation board seats. Prior to the closing of the business combination, the Company's Chairman, one of the Company's employees and one of the Company's board members held three of Salesforce.org's eight board seats. Prior to the closing of the business combination, the Company did not control the Foundation's or Salesforce.org's activities, and accordingly, the Company did not consolidate either of the related entities' statement of activities with its financial results.

Since the Foundation's and Salesforce.org's inception, and prior to the closing of the business combination with Salesforce.org, the Company provided at no charge certain resources to those entities' employees such as office space, furniture, equipment, facilities, services and other resources. The value of these items was approximately \$6 million in fiscal 2020, prior to the business combination.

Additionally, the Company allowed Salesforce.org to donate subscriptions of the Company's services to other qualified non-profit organizations. Prior to the closing of the business combination with Salesforce.org, the value of the subscriptions sold by Salesforce.org to external customers pursuant to the reseller agreement, as amended, was approximately \$110 million for fiscal 2020, prior to the business combination.

As discussed in Note 6 "Business Combinations", in June 2019, the Company reorganized its relationship with Salesforce.org, which was accounted for as a business combination. This transaction did not change the relationship and accounting considerations with the Foundation, as described above.

15. Subsequent Events

The Company acquired Tableau on August 1, 2019. In connection with the acquisition, the Company obtained all regulatory clearances necessary to close. In July 2019, the United Kingdom Competition and Markets Authority (the “CMA”) informed the parties that it planned to review the acquisition. On July 31, 2019 the CMA issued an Initial Enforcement Order (“IEO”) requiring Salesforce and Tableau to operate separately pending the CMA’s review of the acquisition. On November 5, 2019, the CMA revoked the IEO, meaning Salesforce and Tableau could integrate without restriction. On November 22, 2019, the CMA announced its decision to completely and unconditionally clear the acquisition. The CMA’s decision was effective immediately and concluded its review of the transaction.

In November 2019, the Company entered into an agreement to purchase two real estate assets in San Francisco, California for approximately \$150 million. The transaction is expected to close in the Company’s fourth quarter of fiscal 2020 or first quarter of fiscal 2021, subject to customary closing conditions.

In November 2019, the Company repaid the remaining \$150 million of the 2021 Term Loan.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Words such as "expects," "anticipates," "aims," "projects," "intends," "plans," "believes," "estimates," "seeks," "assumes," "may," "should," "could," "would," "foresees," "forecasts," "predicts," "targets," variations of such words and similar expressions are intended to identify such forward-looking statements, which may consist of, among other things, trend analyses and statements regarding future events, future financial performance, anticipated growth and industry prospects. These forward-looking statements are based on current expectations, estimates and forecasts, as well as the beliefs and assumptions of our management, and are subject to risks and uncertainties that are difficult to predict, including: the effect of general economic and market conditions; the impact of geopolitical events; the impact of foreign currency exchange rate and interest rate fluctuations on our results; our business strategy and our plan to build our business, including our strategy to be the leading provider of enterprise cloud computing applications and platforms; the pace of change and innovation in enterprise cloud computing services; the seasonal nature of our sales cycles; the competitive nature of the market in which we participate; our international expansion strategy; the demands on our personnel and infrastructure resulting from significant growth in our customer base and operations, including as a result of acquisitions; our service performance and security, including the resources and costs required to avoid unanticipated downtime and prevent, detect and remediate potential security breaches; the expenses associated with our data centers and third-party infrastructure providers; additional data center capacity; real estate and office facilities space; our operating results and cash flows; new services and product features, including any efforts to expand our services beyond the CRM market; our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; the performance and fair value of our investments in complementary businesses through our strategic investment portfolio; our ability to realize the benefits from strategic partnerships, joint ventures and investments; the impact of future gains or losses from our strategic investment portfolio including gains or losses from overall market conditions that may affect the publicly traded companies within our strategic investment portfolio; our ability to execute our business plans; our ability to successfully integrate acquired businesses and technologies; our ability to continue to grow unearned revenue and remaining performance obligation; our ability to protect our intellectual property rights; our ability to develop our brands; our reliance on third-party hardware, software and platform providers; our dependency on the development and maintenance of the infrastructure of the Internet; the effect of evolving domestic and foreign government regulations, including those related to the provision of services on the Internet, those related to accessing the Internet, and those addressing data privacy, cross-border data transfers and import and export controls; the valuation of our deferred tax assets and the release of related valuation allowances; the potential availability of additional tax assets in the future; the impact of new accounting pronouncements and tax laws; uncertainties affecting our ability to estimate our tax rate; uncertainties regarding our tax obligations in connection with potential jurisdictional transfers of intellectual property, including the tax rate, the timing of the transfer and the value of such transferred intellectual property; the impact of expensing stock options and other equity awards; the sufficiency of our capital resources; factors related to our 2023 and 2028 senior notes, revolving credit facility, 2021 term loan and loan associated with 50 Fremont; compliance with our debt covenants and lease obligations; current and potential litigation involving us; and the impact of climate change. These and other risks and uncertainties may cause our actual results to differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below under "Risk Factors" and elsewhere in this report for additional detail regarding factors that may cause actual results to be different than those expressed in our forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are a global leader in customer relationship management ("CRM") technology that enables companies to improve their relationships and interactions with customers. We introduced our first CRM solution in 2000, and we have since expanded our service offerings with new editions, features and platform capabilities. Our core mission is to empower our customers of every size and industry to connect with their customers in new ways through existing and emerging technologies, including cloud, mobile, social, Internet of Things ("IoT"), advanced analytics and artificial intelligence ("AI").

Website references throughout this document are provided for convenience only, and the content on the referenced websites is not incorporated by reference into this report.

Highlights from the Third Quarter of Fiscal Year 2020.

- **Revenue:** Total third quarter revenue was \$4.5 billion, an increase of 33 percent year-over-year.
- **Loss per Share:** Third quarter loss per share was \$0.12, as compared to diluted earnings per share of \$0.13 from a year ago.

- **Cash:** Total cash, cash equivalents and marketable securities ended the third quarter at \$6.5 billion. Cash generated from operations for the third quarter was \$298 million, an increase of 108 percent year-over-year. Our cash flow from operations is seasonal. Refer to "Seasonal Nature of Unearned Revenue, Accounts Receivable and Operating Cash Flow" below.
- **Remaining Performance Obligation:** Remaining performance obligation ended the third quarter at approximately \$25.9 billion, an increase of 22 percent year-over-year. Current remaining performance obligation ended the third quarter at approximately \$12.8 billion, an increase of 28 percent year-over-year.
- **Acquisitions:** On August 1, 2019, we completed the acquisition of Tableau Software, Inc. ("Tableau") for \$14.8 billion in common stock issued, cash and fair value of equity assumed. On October 1, 2019, we completed the acquisition of ClickSoftware Technologies Ltd. ("ClickSoftware") for \$1.4 billion in cash, common stock issued and fair value of equity assumed. The results of Tableau and ClickSoftware have been included in our consolidated financial statements since the date of each acquisition, respectively.

We 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 through a disciplined and thoughtful acquisition process. 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, e-commerce, AI, IoT and collaborative productivity tools. We drive innovation organically and to a lesser extent through acquisitions, such as our recent business combination with Salesforce.org in June 2019, Tableau in August 2019 and ClickSoftware in October 2019.

As a result of our aggressive growth plans and integration of our previously acquired businesses, we have incurred significant expenses for equity awards and amortization of purchased intangibles, which have reduced our operating income.

We periodically make changes to our sales organization to position us for long-term growth, which has in the past and could again in the future result in temporary disruptions to our sales productivity. In addition, we have experienced, and may at times in the future experience, more variation from our forecasted expectations of new business activity due to longer and less predictable sales cycles and increasing complexity of our business, which includes an expanded mix of products and various revenue models resulting from acquisitions. While we do not expect any of these changes to have a material adverse effect on our business or our ability to meet our near-term or long-term revenue targets, slower growth in new business in a given period could negatively affect our revenues in future periods, as well as remaining performance obligation in current or future periods, particularly if experienced on a sustained basis.

The expanding global scope of our business and the heightened volatility of global markets expose us to the risk of fluctuations in foreign currency markets. Fluctuations in foreign currency exchange rates negatively impacted our revenue results for the nine months ended October 31, 2019 and had a minimal impact on our remaining performance obligation as of October 31, 2019. We expect these fluctuations to continue in the future.

Sources of Revenues

We derive our revenues from two sources: subscription and support revenues and related professional services. Subscription and support revenues accounted for approximately 94 percent of our total revenues for the nine months ended October 31, 2019.

Subscription and support revenues is primarily comprised of subscription fees from customers accessing our enterprise cloud computing services (collectively, "Cloud Services"). With the May 2018 acquisition of MuleSoft, Inc. ("Mulesoft") and the August 2019 acquisition of Tableau, subscription and support revenues also includes revenues associated with software licenses. Software license revenues include fees from the sales of term, subscription and perpetual licenses. Revenues from software licenses are generally recognized upfront when the software is made available to the customer and revenues from the related support is generally recognized ratably over the contract term. Revenue from software licenses represent less than ten percent of total subscription and support revenue for the three and nine months ended October 31, 2019.

The revenue growth rates of each of our core service offerings, as described below in the Results of Operations, fluctuate from quarter to quarter and over time. Additionally, we manage the total balanced product portfolio to deliver solutions to our customers, and as a result, the revenue result for each offering is not necessarily indicative of the results to be expected for any subsequent quarter. In addition, some of our Cloud Service offerings have similar features and functions. For example, customers may use the Sales Cloud, the Service Cloud or the Salesforce Platform to record account and contact information, which are similar features across these service offerings. Depending on a customer's actual and projected business requirements, more than one service offering may satisfy the customer's current and future needs. We record revenue based on the individual products ordered by a customer, not according to the customer's business requirements and usage. In addition, as we introduce new features and functions within each offering and refine our allocation methodology for changes in our

business, we do not expect it to be practical to adjust historical revenue results by service offering for comparability. Accordingly, comparisons of revenue performance by service offering over time may not be meaningful.

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

Unearned 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 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 unearned revenue or in revenue depending on whether transfer of control to customers has occurred. In general, we collect our billings in advance of the subscription service period. 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 unearned revenue and accounts receivable as the next billing cycle approaches, as the corresponding unearned revenue decreases to zero. There is a disproportionate weighting toward annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Our fourth quarter has historically been our strongest quarter for new business and renewals. The year on year compounding effect of this seasonality in both billing patterns and overall new and renewal business causes the value of invoices that we generate in the fourth quarter for both new business and renewals to increase as a proportion of our total annual billings. Accordingly, because of this billing activity, our first quarter is typically our largest collections and operating cash flow quarter. Conversely, our third quarter has historically been our smallest operating cash flow quarter.

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

		October 31, 2019	July 31, 2019	April 30, 2019	
Fiscal 2020					
Accounts receivable, net	\$	2,573	\$ 2,332	\$ 2,153	
Unearned revenue		6,858	7,142	7,585	
Net cash provided by operating activities for the three months ended		298	436	1,965	
		January 31, 2019	October 31, 2018	July 31, 2018	April 30, 2018
Fiscal 2019					
Accounts receivable, net	\$	4,924	\$ 2,037	\$ 1,980	\$ 1,763
Unearned revenue		8,564	5,376	5,883	6,201
Net cash provided by operating activities for the three months ended		1,331	143	458	1,466
		January 31, 2018	October 31, 2017	July 31, 2017	April 30, 2017
Fiscal 2018					
Accounts receivable, net	\$	3,921	\$ 1,522	\$ 1,572	\$ 1,442
Unearned revenue		6,995	4,312	4,749	4,969
Net cash provided by operating activities for the three months ended		1,052	125	331	1,230

The unearned revenue balance on our condensed consolidated balance sheets does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Transaction price allocated to the remaining performance obligation ("Remaining Performance Obligation") represents contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Remaining Performance Obligation is not necessarily indicative of future revenue growth and is influenced by several factors, including seasonality, the timing of renewals, average contract terms, foreign currency exchange rates and fluctuations in new business growth. Unbilled portions of the Remaining Performance Obligation denominated in foreign currencies are revalued each period based on the period end exchange rates. For multi-year subscription agreements billed annually, the associated unbilled balance and corresponding Remaining Performance Obligation is typically high at the beginning of the contract period, zero just prior to renewal, and increases if the agreement is renewed. Low Remaining Performance Obligation 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.

Remaining Performance Obligation consisted of the following (in billions):

	Current	Noncurrent	Total
As of October 31, 2019	\$ 12.8	\$ 13.1	\$ 25.9 (1)
As of July 31, 2019	12.1	13.2	25.3 (2)
As of April 30, 2019	11.8	13.1	24.9
As of January 31, 2019	11.9	13.8	25.7
As of October 31, 2018	10.0	11.2	21.2
As of July 31, 2018	9.8	11.2	21.0
As of April 30, 2018	9.6	10.8	20.4
As of January 31, 2018	9.6	11.0	20.6

(1) Includes approximately \$400 million and \$550 million of Remaining Performance Obligation related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively.

(2) Includes approximately \$350 million of Remaining Performance Obligation related to the Salesforce.org business combination.

Cost of Revenues and Operating Expenses

Impact of Acquisitions

The comparability of our operating results is impacted by our recent acquisitions, including the acquisition of Tableau in August 2019. Expense contributions from our recent acquisitions for each of the respective period comparisons generally may not be separately identifiable due to the integration of these businesses into our existing operations, or may be insignificant to our results of operations during the periods presented.

Cost of Revenues

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

We intend to continue to invest additional resources in our enterprise cloud computing services. For example, we have invested in additional database software and hardware and we plan to increase the capacity that we are able to offer globally through data centers and third-party infrastructure providers. In addition, we intend to continue to invest additional resources in enhancing our trust and cyber security measures. As we acquire new businesses and technologies, the amortization expense associated with the purchase of acquired developed technology will be included in cost of revenues. Additionally, as we enter into new contracts with third parties for the use of their technology, services or data, or as our sales volume grows, the fees paid to use such technology or services may increase. Finally, we expect the cost of professional services to be approximately in line with revenues from professional services as we believe this investment in professional services facilitates the adoption of our service offerings. The timing of these additional expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in the affected periods.

Research and Development

Research and development expenses consist primarily of salaries and related expenses, including stock-based expenses, the costs of our development and test data center and allocated overhead. We continue to focus our research and development efforts on adding new features and services, integrating acquired technologies, increasing the functionality and security and enhancing the ease of use of our enterprise cloud computing services. Our proprietary, scalable and secure multi-tenant architecture enables us to provide our customers with a service based on a single version of our application.

We expect that in the future, research and development expenses will increase in absolute dollars and may increase as a percentage of total revenues as we invest in adding employees and building the necessary system infrastructure required to

support the development of new, and improve existing, technologies and the integration of acquired businesses, technologies and all of our service offerings.

Marketing and Sales

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

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

General and Administrative

General and administrative expenses consist of salaries and related expenses, including stock-based expenses, for finance and accounting, legal, internal audit, human resources and management information systems personnel, legal costs, security costs, professional fees, other corporate expenses such as transaction costs for acquisitions and allocated overhead. We expect that in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee related costs, professional fees and insurance costs related to the growth of our business and international expansion. We expect general and administrative costs as a percentage of total revenues to either remain flat or decrease for the next several quarters. However, the timing of additional expenses in a particular quarter, both in terms of absolute dollars and as a percentage of revenues, will affect our general and administrative expenses.

Stock-Based Expenses

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

Amortization of Purchased Intangible Assets Acquired Through Business Combinations

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

Critical Accounting Policies and Estimates

Our condensed 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 condensed consolidated financial statements, the following accounting policies and specific estimates involve a greater degree of judgment and complexity. Accordingly, these are the policies and estimates we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations:

- the fair value of assets acquired and liabilities assumed for business combinations;
- the standalone selling price ("SSP") of performance obligations for revenue contracts with multiple performance obligations;
- the average period of benefit associated with costs capitalized to obtain revenue contracts;
- the recognition, measurement and valuation of current and deferred income taxes and uncertain tax positions; and
- the valuation of privately held strategic investments.

Recent Accounting Pronouncements

Effective on February 1, 2019, we adopted the provisions and expanded disclosure requirements described in Accounting Standards Update No. 2016-02, "Leases (Topic 842)." Upon adoption, we recorded operating lease right-of-use ("ROU") assets of approximately \$2.9 billion and corresponding operating lease liabilities of \$3.1 billion on our condensed consolidated balance sheets.

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

Results of Operations

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2019	% of Total Revenues	2018	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Revenues:								
Subscription and support	\$ 4,239	94 %	\$ 3,168	93 %	\$ 11,480	94 %	\$ 9,038	93 %
Professional services and other	274	6	224	7	767	6	641	7
Total revenues	4,513	100	3,392	100	12,247	100	9,679	100
Cost of revenues (1)(2):								
Subscription and support	870	19	676	20	2,275	19	1,887	20
Professional services and other	264	6	213	6	740	6	618	6
Total cost of revenues	1,134	25	889	26	3,015	25	2,505	26
Gross profit	3,379	75	2,503	74	9,232	75	7,174	74
Operating expenses (1)(2):								
Research and development	774	17	481	14	1,935	16	1,368	14
Marketing and sales	2,063	46	1,588	47	5,584	45	4,421	46
General and administrative	477	11	342	10	1,214	10	987	10
Loss on settlement of Salesforce.org reseller agreement	0	0	0	0	166	1	0	0
Total operating expenses	3,314	74	2,411	71	8,899	72	6,776	70
Income from operations	65	1	92	3	333	3	398	4
Gains on strategic investments, net	6	0	63	2	396	3	417	4
Other income (expense)	(7)	0	(27)	(1)	(19)	0	(71)	0
Income before benefit from (provision for) income taxes	64	1	128	4	710	6	744	8
Benefit from (provision for) income taxes	(173)	(3)	(23)	(1)	(336)	(3)	4	0
Net income (loss)	\$ (109)	(2) %	\$ 105	3 %	\$ 374	3 %	\$ 748	8 %

(1) Amounts related to amortization of intangible assets acquired through business combinations, as follows (in millions):

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2019	% of Total Revenues	2018	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Cost of revenues	\$ 157	4 %	\$ 62	2 %	\$ 280	2 %	\$ 153	2 %
Marketing and sales	109	2	67	2	242	2	164	2

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2019	% of Total Revenues	2018	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Cost of revenues	\$ 54	1 %	\$ 42	1 %	\$ 143	1 %	\$ 119	1 %
Research and development	169	4	81	2	348	3	228	2
Marketing and sales	249	6	180	5	625	5	474	5
General and administrative	71	1	48	1	158	1	133	1

Impact of Acquisitions

The comparability of our operating results in the three and nine months ended October 31, 2019 compared to the same periods of fiscal 2019 was impacted by our recent acquisitions, including the acquisition of Tableau in August 2019. In our discussion of changes in our results of operations from the three and nine months ended October 31, 2019 compared to the same periods of fiscal 2019, we may quantitatively disclose the impact of our acquired products and services for the one-year period subsequent to the acquisition date to the growth in certain of our revenues where such discussions would be meaningful. Expense contributions from our recent acquisitions for each of the respective period comparisons generally were not separately identifiable due to the integration of these businesses into our existing operations or were insignificant to our results of operations during the periods presented.

Revenues.

(in millions)	Three Months Ended October 31,		Variance	
	2019	2018	Dollars	Percent
Subscription and support	\$ 4,239	\$ 3,168	\$ 1,071	34 %
Professional services and other	274	224	50	22
Total revenues	\$ 4,513	\$ 3,392	\$ 1,121	33 %

(in millions)	Nine Months Ended October 31,		Variance	
	2019	2018	Dollars	Percent
Subscription and support	\$ 11,480	\$ 9,038	\$ 2,442	27 %
Professional services and other	767	641	126	20
Total revenues	\$ 12,247	\$ 9,679	\$ 2,568	27 %

The increase in subscription and support revenues was primarily caused by volume-driven increases from new business, which includes new customers, upgrades, additional subscriptions from existing customers and acquisition activity. Revenues from software licenses, which are recognized at a point in time, represent approximately 7 percent and 4 percent of total subscription and support revenues for the three and nine months ended October 31, 2019, respectively.

The business combination with Salesforce.org in June 2019 contributed approximately \$80 million and \$131 million to total subscription and support revenues for the three and nine months ended October 31, 2019, respectively. The business combination with Tableau in August 2019 contributed approximately \$308 million to total subscription and support revenues in the three and nine months ended October 31, 2019. As required under U.S. GAAP, we recorded unearned revenue related to acquired contracts from acquired entities at fair value on the date of acquisition. As a result, we did not recognize certain revenues related to these acquired contracts that the acquired entities would have otherwise recorded as an independent entity.

We calculate our attrition rate as of the end of each month. Our attrition rate, including the Marketing Cloud service offering but excluding our Commerce Cloud, Integration Cloud, and recent acquisitions, was less than ten percent as of October 31, 2019. While it is difficult to predict, we expect our attrition rate to remain consistent as we continue to expand our enterprise business and invest in customer success and related programs.

We continue to invest in a variety of customer programs and initiatives which, along with increasing enterprise adoption, have helped keep our attrition rate consistent as compared to the prior year. Consistent attrition rates play a role in our ability to maintain growth in our subscription and support revenues. Changes in the net price per user per month have not been a significant driver of revenue growth for the periods presented. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of customers.

Subscription and Support Revenue by Service Offering

Subscription and support revenues consisted of the following (in millions):

	Three Months Ended October 31,		Variance Percent
	2019	2018	
Sales Cloud	\$ 1,168	\$ 1,020	15%
Service Cloud	1,140	917	24%
Salesforce Platform and Other	1,287	742	73%
Marketing and Commerce Cloud	644	489	32%
Total	\$ 4,239	\$ 3,168	

	Nine Months Ended October 31,		Variance Percent
	2019	2018	
Sales Cloud	\$ 3,371	\$ 2,989	13%
Service Cloud	3,247	2,657	22%
Salesforce Platform and Other	3,041	2,029	50%
Marketing and Commerce Cloud	1,821	1,363	34%
Total	\$ 11,480	\$ 9,038	

Subscription and support revenues from the Community Cloud, Quip and our Industry offerings were not significant in the three and nine months ended October 31, 2019 and 2018. Quip revenue is included with Salesforce Platform and Other in the table above. Our Industry Offerings and Community Cloud revenue are included in either Sales Cloud, Service Cloud or Salesforce Platform and Other depending on the primary service offering purchased. MuleSoft and Tableau revenues are included in Salesforce Platform and Other.

Revenues by geography were as follows:

(in millions)	Three Months Ended October 31,				
	2019	As a % of Total Revenues	2018	As a % of Total Revenues	Growth rate
Americas	\$ 3,216	71 %	\$ 2,425	71 %	33 %
Europe	880	20	641	19	37
Asia Pacific	417	9	326	10	28
	\$ 4,513	100 %	\$ 3,392	100 %	33 %

(in millions)	Nine Months Ended October 31,				
	2019	As a % of Total Revenues	2018	As a % of Total Revenues	Growth rate
Americas	\$ 8,649	71 %	\$ 6,864	71 %	26 %
Europe	2,421	20	1,876	19	29
Asia Pacific	1,177	9	939	10	25
	\$ 12,247	100 %	\$ 9,679	100 %	27 %

Revenues by geography are determined based on the region of the Salesforce contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent during the three and nine months ended October 31, 2019 and 2018. The increase in Americas revenues was the result of the increasing acceptance of our services and the investment of additional sales resources.

Revenues in Europe and Asia Pacific accounted for \$1.3 billion, or 29 percent of total revenues, for the three months ended October 31, 2019, compared to \$1.0 billion, or 29 percent of total revenues, during the same period a year ago, an increase of \$0.3 billion, or 34 percent. Revenues in Europe and Asia Pacific accounted for \$3.6 billion, or 29 percent of total revenues, for the nine months ended October 31, 2019, compared to \$2.8 billion, or 29 percent of total revenues, during the same period a year ago, an increase of \$0.8 billion, or 28 percent. This increase in revenues outside of the Americas was the result of the increasing acceptance of our services, our focus on marketing our services internationally and the investment of additional sales resources. Foreign currency fluctuations, particularly the weakening British Pound Sterling, had a negative impact on revenues outside of the Americas of approximately \$28 million and \$113 million in the three and nine months ended October 31, 2019 compared to the three and nine months ended October 31, 2018, respectively. We expect foreign currency fluctuations to continue to negatively affect our overall revenues outside of the Americas for the remaining three months of fiscal 2020.

Cost of Revenues.

(in millions)	Three Months Ended October 31,		Variance
	2019	2018	Dollars
Subscription and support	\$ 870	\$ 676	\$ 194
Professional services and other	264	213	51
Total cost of revenues	\$ 1,134	\$ 889	\$ 245
Percent of total revenues	25 %	26 %	

(in millions)	Nine Months Ended October 31,		Variance
	2019	2018	Dollars
Subscription and support	\$ 2,275	\$ 1,887	\$ 388
Professional services and other	740	618	122
Total cost of revenues	\$ 3,015	\$ 2,505	\$ 510
Percent of total revenues	25 %	26 %	

For the three months ended October 31, 2019, the increase in cost of revenues was primarily due to an increase of \$77 million in employee-related costs, an increase of \$12 million in stock-based expenses, an increase of \$53 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$95 million and an increase in allocated overhead. For the nine months ended October 31, 2019, the increase in cost of revenues was primarily due to an increase of \$149 million in employee-related costs, an increase of \$24 million in stock-based expenses, an increase of \$150 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$127 million and an increase in allocated overhead. We have increased our headcount by 27 percent since October 31, 2018 to meet the higher demand for services from our customers, and our recent acquisitions also contributed to this increase. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity to allow us to scale with our customers and continuously evolve our security measures. We also plan to add 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.

Our professional services and other gross margin was positive \$10 million and positive \$27 million during the three and nine months ended October 31, 2019, respectively, and positive \$11 million and positive \$23 million during the three and nine months ended October 31, 2018, respectively. We expect the cost of professional services to be approximately in line with revenues from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Operating Expenses.

(in millions)	Three Months Ended October 31,		Variance
	2019	2018	Dollars
Research and development	\$ 774	\$ 481	\$ 293
Marketing and sales	2,063	1,588	475
General and administrative	477	342	135
Total operating expenses	\$ 3,314	\$ 2,411	\$ 903
Percent of total revenues	74 %	71 %	

(in millions)	Nine Months Ended October 31,		Variance
	2019	2018	Dollars
Research and development	\$ 1,935	\$ 1,368	\$ 567
Marketing and sales	5,584	4,421	1,163
General and administrative	1,214	987	227
Loss on settlement of Salesforce.org reseller agreement	166	0	166
Total operating expenses	\$ 8,899	\$ 6,776	\$ 2,123
Percent of total revenues	72 %	70 %	

For the three months ended October 31, 2019, the increase in research and development expenses was primarily due to an increase of approximately \$172 million in employee-related costs, an increase of \$88 million in stock-based expenses, an increase in our development and test data center costs and allocated overhead. For the nine months ended October 31, 2019, the increase in research and development expenses was primarily due to an increase of approximately \$369 million in employee-related costs, an increase of \$120 million in stock-based expenses, an increase in our development and test data center costs and allocated overhead. We increased our research and development headcount by 55 percent since October 31, 2018 in order to improve and extend our service offerings, develop new technologies, and integrate acquired companies. In addition, our recent acquisitions also contributed to this increase in headcount. 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.

For the three months ended October 31, 2019, the increase in marketing and sales expenses was primarily due to an increase of \$320 million in employee-related costs and amortization of deferred commissions, an increase of \$69 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$42 million and allocated overhead. For the nine months ended October 31, 2019, the increase in marketing and sales expenses was primarily due to an increase of \$754 million in employee-related costs and amortization of deferred commissions, an increase of \$151 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$78 million, and allocated overhead. Our marketing and sales headcount increased by 38 percent since October 31, 2018, primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. In addition, our recent acquisitions also contributed to this increase in headcount. We expect that marketing and sales expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to hire additional sales personnel.

For the three and nine months ended October 31, 2019, the increases in general and administrative expenses were primarily due to an increase in employee-related costs. Our general and administrative headcount increased by 40 percent since October 31, 2018 as we added personnel to support our growth, and our recent acquisitions also contributed to this increase. We also incurred transaction costs associated with our acquisition of Tableau of approximately \$40 million of which approximately \$30 million was incurred during the three months ended October 31, 2019.

As a result of the June 2019 Salesforce.org business combination, the Company effectively settled all existing agreements between the Company and Salesforce.org and, as part of business combination accounting, accordingly recorded a one-time, non-cash operating expense charge of approximately \$166 million related to the effective settlement of the reseller agreement.

Other income and expense.

(in millions)	Three Months Ended October 31,		Variance
	2019	2018	Dollars
Gains on strategic investments, net	\$ 6	\$ 63	\$ (57)
Other expense	(7)	(27)	20

(in millions)	Nine Months Ended October 31,		Variance
	2019	2018	Dollars
Gains on strategic investments, net	\$ 396	\$ 417	\$ (21)
Other expense	(19)	(71)	52

Gains on strategic investments, net consists primarily of mark-to-market adjustments related to our publicly held equity securities, observable price adjustments related to our privately held equity securities and other adjustments. During the three months ended October 31, 2019, we recognized a realized gain of \$39 million related to the acquisition of ClickSoftware and we sold our investments in three publicly traded companies resulting in a realized loss of \$32 million. In addition, we recorded unrealized gains on privately held equity securities of \$77 million, primarily driven by one investment, and realized gains of \$14 million, offset by unrealized losses recognized on publicly traded securities of \$84 million, primarily driven by one investment. Net gains recognized in the nine months ended October 31, 2019 were primarily driven by unrealized gains on privately held equity securities of \$199 million, primarily driven by two investments, and unrealized gains recognized on publicly traded securities of \$132 million, primarily driven by one investment.

Other expense primarily consists of interest expense on our debt as well as our operating and finance leases offset by investment income. Interest expense was \$32 million and \$40 million for the three months ended October 31, 2019 and 2018, respectively, and \$101 million and \$113 million for the nine months ended October 31, 2019 and 2018, respectively. Investment income increased approximately \$19 million and \$48 million in the three and nine months ended October 31, 2019, respectively, compared to the same periods a year ago due to higher interest income across our portfolio, which is primarily a result of the larger investable balance.

Benefit from (provision for) income taxes.

(in millions)	Three Months Ended October 31,		Variance
	2019	2018	Dollars
Provision for income taxes	\$ (173)	\$ (23)	\$ (150)
Effective tax rate	270 %	18 %	

(in millions)	Nine Months Ended October 31,		Variance
	2019	2018	Dollars
Benefit from (provision for) income taxes	\$ (336)	\$ 4	\$ (340)
Effective tax rate	47 %	(1)%	

We recognized a tax provision of \$173 million on a pretax income of \$64 million for the three months ended October 31, 2019. Our tax provision was primarily related to income taxes in profitable jurisdictions outside of the United States. In addition, recent acquisitions changed our quarterly earnings and based on our approach to compute interim tax provision by applying the estimated annual effective tax rate to year-to-date pretax income or loss, we recorded higher quarterly income tax provision. We recognized a tax provision of \$336 million on a pretax income of \$710 million for the nine months ended October 31, 2019.

In fiscal 2019, we recorded a tax provision of \$23 million on a pretax income of \$128 million for the three months ended October 31, 2018 and a tax benefit of \$4 million on a pretax income of \$744 million for the nine months ended October 31, 2018. Included in the tax benefit for both reporting periods was a discrete tax benefit of \$140 million from a partial release of the valuation allowance in connection with the acquisition of MuleSoft. The net deferred tax liability from the acquisition of MuleSoft provided a source of additional income to support the realizability of the Company's pre-existing deferred tax assets and as a result, the Company released a portion of its valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside of the United States.

Liquidity and Capital Resources

At October 31, 2019, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$6.5 billion and accounts receivable of \$2.6 billion. Our cash, cash equivalents and marketable securities are comprised primarily of corporate notes and obligations, U.S. treasury securities, asset backed securities, foreign government obligations, mortgage backed obligations, time deposits, money market mutual funds and municipal securities.

As of October 31, 2019, our remaining performance obligation was \$25.9 billion. Our remaining performance obligation represents contracted revenue that has not yet been recognized and includes unearned revenue, which has been invoiced and is recorded on the balance sheet, and unbilled amounts that are not recorded on the balance sheet, that will be recognized as revenue in future periods.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities and, if necessary, our borrowing capacity under our Credit Facility and unbilled amounts related to contracted non-cancelable subscription agreements, which is not reflected on the balance sheet, will be sufficient to meet our working capital, capital expenditure and debt repayment needs over the next 12 months.

In the future, we may enter into arrangements to acquire or invest in complementary businesses, services and technologies, and intellectual property rights. To facilitate these acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all, impacting our ability to complete subsequent acquisitions or investments.

The adoption of the new lease accounting standard (Topic 842) has not impacted the cost of or limit our borrowing capacity from third party lenders.

Cash Flows

For the three and nine months ended October 31, 2019 and 2018, our cash flows were as follows (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2019	2018	2019	2018
Net cash provided by operating activities	\$ 298	\$ 143	\$ 2,699	\$ 2,067
Net cash provided by (used in) investing activities	63	(545)	(1,515)	(4,930)
Net cash provided by financing activities	15	182	39	2,396

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; the expense associated with stock-based awards; net gains on 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 our semi-annual interest payments related to our senior notes; the timing of collections from our customers, which is our largest source of operating cash flows; the timing of business combination activity and the related integration and transaction costs; and changes in working capital accounts.

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

As described above in “Seasonal Nature of Unearned Revenue, Accounts Receivable and Operating Cash Flow,” our fourth quarter has historically been our strongest quarter for new business and renewals and, correspondingly, the first quarter has historically been the strongest for cash collections. The year on year compounding effect of this seasonality in both billing patterns and overall business causes both the value of invoices that we generate in the fourth quarter and cash collections in the first quarter to increase as a proportion of our total annual billings. The operating cash flow benefit of increased billing activity generally occurs in the subsequent quarter when we collect from our customers. As a result, our first quarter is our largest collections and operating cash flow quarter. Conversely, our third quarter has historically been our smallest operating cash flow quarter.

Our net operating cash flow for the three months ended October 31, 2019 was negatively impacted by approximately \$90 million of transaction costs incurred by Tableau. These transactions costs were paid after the transaction closed.

The net cash used in investing activities during the nine months ended October 31, 2019 was primarily related to the purchases of marketable securities of \$1.9 billion and was offset by sales and maturities of marketable securities of \$1.4 billion.

In addition, we paid approximately \$1.1 billion of cash consideration for business combinations during the nine months ended October 31, 2019, which was offset by approximately \$644 million of cash and cash equivalents acquired in connection with the acquisition of Tableau, as well as approximately \$110 million of cash and cash equivalents acquired in connection with other acquisitions. The net cash used in investing activities during the nine months ended October 31, 2018 was primarily related to the acquisition of Mulesoft, Datorama and CloudCraze for \$5.1 billion and was offset by sales and maturities of marketable securities of \$1.5 billion.

Net cash provided by financing activities during the nine months ended October 31, 2019 consisted primarily of \$550 million from proceeds from equity plans offset by repayments of debt of \$352 million and principal payments on financing obligations of \$159 million. Net cash provided by financing activities during the nine months ended October 31, 2018 consisted primarily of \$3.0 billion from proceeds from issuance of debt to fund the acquisition of Mulesoft and \$568 million from proceeds from equity plans offset by \$1.0 billion in repayments of debt.

Debt

As of October 31, 2019, we had senior unsecured debt outstanding due in 2021, 2023 and 2028 with a total carrying value of \$2.6 billion. In addition, we had senior secured notes outstanding related to our loan on 50 Fremont due in 2023 with a total carrying value of \$194 million and \$150 million remaining on the 2021 Term Loan. We were in compliance with all debt covenants as of October 31, 2019. In November 2019, the Company repaid the remaining \$150 million of the 2021 Term Loan.

We do not have any special purpose entities and we do not engage in off-balance sheet financing arrangements.

Contractual Obligations

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, excluding all secured and unsecured debt. At October 31, 2019, the future non-cancelable minimum payments under these commitments were approximately \$4.2 billion.

As of October 31, 2019, we have additional operating leases that have not yet commenced totaling \$2.5 billion. These operating leases include agreements for office facilities to be constructed and will commence between fiscal year 2021 and fiscal year 2025 with lease terms of one to 21 years.

During fiscal 2020 and in future fiscal years, we have made and expect to continue to make additional investments in our infrastructure to scale our operations, increase productivity and enhance our security measures. We plan to upgrade or replace various internal systems to scale with our overall growth. 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 such investments and continued office build-outs, other leasehold improvements and data center investments.

Other Future Obligations

In October 2019, we acquired ClickSoftware Technologies Ltd. ("ClickSoftware") for approximately \$1.4 billion. In the event that we fully integrate the operations and assets of ClickSoftware into our operations, we may be subject to a potential one-time income tax charge based on an assumed Israeli statutory tax rate of 23 percent applied to the value of any transferred intangibles.

In November 2019, we entered into an agreement to purchase two real estate assets in San Francisco, California for approximately \$150 million. The transaction is expected to close in the fourth quarter of fiscal 2020 or the first quarter of fiscal 2021, subject to customary closing conditions.

Environmental, Social and Governance

We believe the business of business is improving the state of the world for all of our stakeholders, including our stockholders, customers, partners, employees, community, environment and society. We are committed to creating a sustainable, low-carbon future by delivering a carbon neutral cloud, operating as a net-zero greenhouse gas emissions company and by working to achieve our goal of 100 percent renewable energy for our global operations by fiscal 2022. We also believe consistent, comparable and reliable disclosures around climate-related risks and opportunities are important. To this end, we are working to align with the recommendations of the Financial Stability Board's ("FSB") Task Force on Climate-related Financial Disclosures ("TCFD") and of the Sustainability Accounting Standards Board ("SASB"). In addition, we have spearheaded human capital management initiatives to drive equality in four key areas: equal rights, equal pay, equal education and equal opportunity. We also pioneered and have inspired other companies to adopt our 1-1-1 integrated philanthropy model, which leverages one percent of a company's equity, employee time and product to help improve communities around the world. We publish an annual stakeholder impact report on our website detailing our overall strategy relating to environmental, social and governance ("ESG") programs as well as our efforts in these areas.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

We primarily conduct our business in the following locations: the United States, Europe, Canada, Asia Pacific and Japan. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, costs associated with third-party infrastructure providers, 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 ("UK") subsidiary, which has a functional currency of the British Pound Sterling. This results in a two-step currency exchange process wherein the currencies in Europe other than the British Pound Sterling are first converted into the British Pound Sterling and then the British Pound Sterling is translated into USD for our Condensed Consolidated Financial Statements. As an example, costs incurred in France are translated from the Euro to the British Pound Sterling and then into the USD. Our statements of operations and balance sheet accounts are also impacted by the re-measurement of non-functional currency transactions such as USD denominated intercompany loans, cash accounts held by our overseas subsidiaries, accounts receivable denominated in foreign currencies and unearned revenue and accounts payable denominated in foreign currencies.

In fiscal 2020, we began transitioning away from this UK-centralized European structure to enable some of our local subsidiaries within Europe to invoice customers directly. This transition, which may take multiple years, would thereby enable the local subsidiaries to recognize revenues, operating expenses and corresponding balance sheet accounts in local currencies. With the change to local invoicing in some markets, we expect better alignment between our revenue and expenses in the local currency.

The U.K. held a referendum in June 2016 in which a majority of voters approved an exit from the European Union ("EU") ("Brexit"). In March 2017, the UK government gave formal notice of its intention to leave the EU and started the process of negotiating the future terms of the UK's relationship with the EU. Brexit could adversely affect UK, regional (including European) and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound Sterling and Euro. We have evaluated and started to implement initiatives, such as the commitment to invest resources in Dublin, Ireland, that could partially mitigate the impact Brexit could have on our operations. In the nine months ended October 31, 2019 and 2018, total revenues generated in Europe were approximately 20 percent and 19 percent of total revenues, respectively, of which substantially all were recorded in our UK subsidiary. Revenues in Europe decreased by approximately \$101 million in the nine months ended October 31, 2019 compared to the nine months ended October 31, 2018 as a result of the weakening British Pound Sterling. We recognize that there are still significant uncertainties surrounding the ultimate resolution of Brexit negotiations, and we will continue to monitor any changes that may arise and assess their potential impact on our business.

Foreign Currency Transaction Risk

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

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

Foreign Currency Translation Risk

Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenues, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into USD. Although the USD fluctuated against certain international currencies over the past several months, the amounts of revenue and remaining performance

obligation that we reported in USD for foreign subsidiaries that transact in international currencies were similar to what we would have reported during the three months using a constant currency rate.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling \$6.5 billion at October 31, 2019. 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 acquisitions of, or investments in, complementary businesses, services or technologies, working capital and capital expenditures. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

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

An immediate increase or decrease in interest rates of 100 basis points at October 31, 2019 could result in a \$22 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, 2019, we had cash, cash equivalents and marketable securities totaling \$4.3 billion. The fixed-income portfolio was also subject to interest rate risk. Changes in interest rates of 100-basis points would have resulted in market value changes of \$21 million.

Market Risk and Market Interest Risk

We deposit our cash with multiple financial institutions.

In addition, we maintain debt obligations that are subject to market interest risk, as follows (in millions):

Instrument	Maturity date	Principal Outstanding as of October 31, 2019	Interest Terms	Effective interest rate for the three months ended October 31, 2019
2021 Term Loan	May 2021	\$ 150	Floating	2.87%
2023 Senior Notes	April 2023	1,000	Fixed	3.26%
2028 Senior Notes	April 2028	1,500	Fixed	3.70%
Loan assumed on 50 Fremont	June 2023	195	Fixed	3.75%
Revolving credit facility	April 2023	0	Floating	N/A

In November 2019, the Company repaid the remaining \$150 million of the 2021 Term Loan.

The borrowings under the Revolving Credit Facility bear interest, at our option, at a base rate plus a spread of 0.00% to 0.375% or an adjusted LIBOR rate plus a spread of 0.75% to 1.375%, in each case with such spread being determined based on our credit rating. Regardless of what amounts, if any, are outstanding under the revolving credit facility, we are also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.05% to 0.175%, with such rate being based on our credit rating, payable in arrears quarterly. As of October 31, 2019, there was no outstanding borrowing amount under the Revolving Credit Facility.

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

We have an investment portfolio that includes strategic investments in privately held and publicly traded companies, which range from early-stage companies to more mature companies both domestically and internationally. We primarily invest in enterprise cloud companies, technology startups and system integrators to create and expand our ecosystem. As the enterprise cloud computing ecosystem continues to mature and technologies change, our investment strategy and corresponding

investment opportunities have expanded to include investments in companies concurrently with their initial public offerings, as well as larger capital investments in late stage companies. We plan to continue these types of strategic investments, including in companies representing targeted geographies and targeted business and technological initiatives, as opportunities arise that we find attractive.

As of October 31, 2019, our portfolio consisted of investments in over 255 companies, with capital investments ranging from less than \$0.3 million to approximately \$300 million, and 24 investments with carrying values individually equal to or in excess of approximately \$10 million.

The following table sets forth additional information regarding active investments within our strategic investment portfolio as of October 31, 2019 and excludes exited investments (in millions):

Investment Type	Capital Invested	Unrealized Gains (Cumulative)	Unrealized Losses (Cumulative)	Carrying Value as of October 31, 2019
Publicly held equity securities	\$ 249	\$ 123	\$ (7)	\$ 365
Privately held equity securities	1,120	430	(192)	1,358
Total equity securities	\$ 1,369	\$ 553	\$ (199)	\$ 1,723

We anticipate additional volatility to our condensed consolidated statements of operations due to changes in market prices, observable price changes and impairments to our investments. These changes could be material based on market conditions and events. While historically our investment portfolio has had a positive impact on our financial results, that may not be true for future periods, particularly in periods of significant market fluctuations that affect our strategic investments portfolio.

For example, an immediate decrease of ten percent in enterprise value of our significant active strategic investments held as of October 31, 2019 could result in a \$95 million reduction to the investment portfolio. This example includes the portfolio's publicly held equities and significant privately held investments. Fluctuations in the value of our privately held equity investments are only recorded when there is an observable transaction for an identical or similar investment of the same issuer or in the event of impairment.

We continually evaluate our investments in privately held and publicly traded companies. In certain cases, our ability to sell these investments may be impacted by contractual obligations to hold the securities for a set period of time after a public offering. Currently, two of our four publicly held investments are subject to such a contractual obligation, which expire in the fourth quarter of fiscal 2020 and the first quarter of fiscal 2021.

In addition, 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. All of our investments, particularly those in privately held companies, are therefore subject to a risk of partial or total loss of investment capital.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

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

Under the supervision and with the participation of our management, including our principal executive officers and principal financial officer, we conducted an evaluation of any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recently completed fiscal quarter. Based on that evaluation, our principal executive officers and principal financial officer concluded that there has not been any material change in our internal control over financial reporting during the quarter covered by this report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We implemented internal controls and assessed the impact on our financial statements from the adoption of Accounting Standards Codification 842, Leases, effective February 1, 2019. There were no significant changes to our internal control over financial reporting due to the adoption of the new standard.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

In December 2018, we were named as a nominal defendant and certain of our current and former directors were named as defendants in a purported shareholder derivative action in the Delaware Court of Chancery. The complaint alleged that excessive compensation was paid to such directors for their service, included claims of breach of fiduciary duty and unjust enrichment, and sought restitution and disgorgement of a portion of the directors' compensation. Subsequently, three similar shareholder derivative actions were filed in the Delaware Court of Chancery. The cases have been consolidated under the caption *In re Salesforce.com, Inc. Derivative Litigation*. We believe that the ultimate outcome of this litigation will not materially and adversely affect our business, financial condition, results of operations or cash flows.

Tableau Litigation

In July and August 2017, two substantially similar securities class action complaints were filed against Tableau Software, Inc. ("Tableau") and two of its now former executive officers. The first complaint was filed in the U.S. District for the Southern District of New York (the "Scheufele Action"). The second complaint was filed in the U.S. District Court for the Western District of Washington and was voluntarily dismissed on October 17, 2017. In December 2017, the lead plaintiff in the Scheufele Action filed an amended complaint, which alleged that between February 5, 2015 and February 4, 2016, Tableau and certain of its executive officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, in connection with statements regarding Tableau's business and operations by allegedly failing to disclose that product launches and software upgrades by competitors were negatively impacting Tableau's competitive position and profitability. The amended complaint sought unspecified damages, interest, attorneys' fees and other costs. In February 2018, the lead plaintiff filed a second amended complaint (the "SAC"), which contains substantially similar allegations as the amended complaint, and added as defendants two of Tableau's now former executive officers and directors. Defendants filed a motion to dismiss the SAC in March 2018, which was denied in February 2019. Defendants filed an answer to the SAC in March 2019, and subsequently amended their answer in April 2019.

In August 2018, Tableau was named as a nominal defendant in a purported shareholder derivative action in the United States District Court for the District of Delaware, allegedly on behalf of and for the benefit of Tableau, against certain of its now former directors and officers. The derivative action arises out of many of the factual allegations at issue in the Scheufele Action, and generally alleges that the individual defendants breached fiduciary duties owed to Tableau. The complaint seeks unspecified damages and equitable relief, attorneys' fees, costs and expenses. The case is currently stayed.

In July 2019, three civil actions were filed against Tableau and each of the members of Tableau's board of directors as of the dates of the complaints asserting claims under Sections 14(e), 14(d), and 20(a) of the Exchange Act challenging the adequacy of certain public disclosures made by Tableau concerning its proposed transaction with Salesforce. Salesforce was named as a defendant in one of these three actions. Specifically, Shiva Stein, a purported Tableau stockholder, commenced an action in the United States District Court for the District of Delaware (the "Stein Action"); Marcy Curtis, a purported Tableau stockholder, commenced a putative class action in the United States District Court for the District of Delaware (the "Curtis Action"); and Cathy O'Brien, a purported Tableau stockholder, commenced an action in the United States District Court for the Southern District of New York (the "O'Brien Action"). Salesforce was named as a defendant in the Curtis Action. The plaintiffs seek, among other things, an injunction that would have prevented the acquisition of Tableau by Salesforce, rescission of the transaction or rescissory damages, an accounting by the defendants for all damages caused to the plaintiffs, and the award of attorneys' fees and expenses. Tableau has not answered the complaint in the Curtis, or O'Brien Actions, and Salesforce has not answered the complaint in the Curtis Action. We settled these three civil actions during the quarter ended October 31, 2019. All three cases are now dismissed.

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

The outcome of any claims or litigation, regardless of the merits, is inherently uncertain. Any claims and other lawsuits, and the disposition of such claims and lawsuits, whether through settlement or litigation, could be time-consuming and

expensive to resolve, divert our attention from executing our business plan, result in efforts to enjoin our activities, lead to attempts by third parties to seek similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices, pay monetary damages or enter into short- or long-term royalty or licensing agreements.

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

We make a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. The outcomes of our legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, we may not be able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to any contingencies, and our estimates may not prove to be accurate.

In our opinion, resolution of all current matters is not expected to have a material adverse impact on our condensed consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of a given dispute or other contingency, an unfavorable resolution could materially affect our current or future results of operations or cash flows, or both, in a particular quarter.

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, stockholders' equity, 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, or the underlying infrastructure of the Internet are breached, and unauthorized access is obtained to a customer's data, our data or our IT systems, or authorized access is blocked or disabled, our services may be perceived as not being secure, customers may curtail or stop using our services, and we may incur significant reputational harm, legal exposure and liabilities, or a negative financial impact.

Our services involve the storage and transmission of our customers' and our customers' customers' proprietary and other sensitive data, including financial information and personally identifiable information. While we have security measures in place to protect our customers and our customers' customers' data, our services and underlying infrastructure may in the future be materially breached or compromised as a result of the following:

- third-party attempts to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our customers' data, our data or our IT systems;
- efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states;
- cyber-attacks on our internally built infrastructure on which many of our service offerings operate;
- vulnerabilities resulting from enhancements and updates to our existing service offerings;
- vulnerabilities in the products or components across the broad ecosystem that our services operate in conjunction with and are dependent on;
- vulnerabilities existing within newly acquired or integrated technologies and infrastructures;
- attacks on, or vulnerabilities in, the many different underlying networks and services that power the Internet that our products depend on, most of which are not under our control or the control of our vendors, partners, or customers; and
- employee or contractor errors or intentional acts that compromise our security systems.

These risks are mitigated, to the extent possible, by our ability to maintain and improve business and data governance policies, enhanced processes and internal security controls, including our ability to escalate and respond to known and potential risks. Our Board of Directors, Audit Committee and executive management are regularly briefed on our cyber-security policies and practices and ongoing efforts to improve security, as well as periodic updates on cyber-security events. Although we have developed systems and processes designed to protect our customers' and our customers' customers' proprietary and other

sensitive data, we can provide no assurances that such measures will provide absolute security. For example, our ability to mitigate these risks may be impacted by the following:

- frequent changes to, and growth in complexity of, the techniques used to breach, obtain unauthorized access to, or sabotage IT systems and infrastructure, which are generally not recognized until launched against a target, possibly resulting in our being unable to anticipate or implement adequate measures to prevent such techniques;
- the continued evolution of our internal IT systems as we early adopt new technologies and new ways of sharing data and communicating internally and with partners and customers, which increases the complexity of our IT systems;
- authorization by our customers to third-party technology providers to access their customer data, which may lead to our customers' inability to protect their data that is stored on our servers; and
- our limited control over our customers or third-party technology providers, or the processing of data by third-party technology providers, which may not allow us to maintain the integrity or security of such transmissions or processing.

In the normal course of business, we are and have been the target of malicious cyber-attack attempts and have experienced other security incidents. To date, such identified security events have not been material or significant to us, including to our reputation or business operations, or had a material financial impact, but there can be no assurance that future cyberattacks will not be material or significant.

A security breach or incident could result in unauthorized parties obtaining access to, or the denial of authorized access to, our IT systems or data, or our customers' systems or data, including intellectual property and proprietary, sensitive, or other confidential information. A security breach could also result in a loss of confidence in the security of our services, damage our reputation, negatively impact our future sales, disrupt our business and lead to increases in insurance premiums and legal and financial exposure and liability. Finally, the detection, prevention and remediation of known or potential security vulnerabilities, including those arising from third-party hardware or software, may result in additional financial burdens due to additional direct and indirect costs, such as additional infrastructure capacity spending to mitigate any system degradation and the reallocation of resources from development activities.

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

Because our services are complex and incorporate a variety of hardware, proprietary software and third-party software, our services may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. Cloud services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in, and experienced disruptions to, our services and new defects or disruptions may occur in the future. Such defects could also create vulnerabilities that could inadvertently permit access to protected customer data. For example, we recently experienced a significant service disruption due to an internally deployed software update that had an unintended impact on our services for certain customers. As a precaution we immediately disabled access to our services for potentially impacted customers while we worked to remediate the issue. Upon completion of the evaluation of the cause and impact of the disruption, we determined it did not materially affect our business, reputation or financial results.

In addition, our customers may use our services in unanticipated ways that may cause a disruption in services for other customers attempting to access their data. As we acquire companies, we may encounter difficulty in incorporating the acquired technologies into our services and in augmenting the technologies to meet the quality standards that are consistent with our brand and reputation.

Since our customers use our services for important aspects of their business, any errors, defects, disruptions in service or other performance problems could hurt our reputation and may damage our customers' businesses. As a result, customers could elect to not renew our services or delay or withhold payment to us. We could also lose future sales or customers may make warranty or other claims against us, which could result in an increase in our allowance for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

Any interruptions or delays in services from third-parties, including data center hosting facilities, cloud computing platform providers and other hardware and software vendors, or from our inability to adequately plan for and manage service interruptions or infrastructure capacity requirements, could impair the delivery of our services and harm our business.

We currently serve our customers from third-party data center hosting facilities and cloud computing platform providers located in the United States and other countries. We also rely on computer hardware purchased or leased from, software licensed from, and cloud computing platforms provided by, third parties in order to offer our services, including database software, hardware and data from a variety of vendors. Any damage to, or failure of our systems generally, including the

systems of our third-party platform providers, could result in interruptions in our services. We have from time to time experienced interruptions in our services and such interruptions may occur in the future. As we increase our reliance on these third-party systems, our exposure to damage from service interruptions may increase. Interruptions in our services may cause us to issue credits or pay penalties, cause customers to make warranty or other claims against us or to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers, all of which would reduce our revenue. Our business would also be harmed if our customers and potential customers believe our services are unreliable.

We use a range of disaster recovery and business continuity arrangements. For many of our offerings, our production environment and customers' data are replicated in near real-time in a separate facility located elsewhere. Certain offerings, including some offerings of companies added through acquisitions, may be served through alternate facilities or arrangements. We do not control the operation of any of these facilities, and they may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, as well as local administrative actions, changes to legal or permitting requirements and litigation to stop, limit or delay operation. Despite precautions taken at these facilities, such as disaster recovery and business continuity arrangements, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our services.

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

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

Privacy concerns and laws such as the European Union's General Data Protection Regulation, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our services and adversely affect our business.

Regulation related to the provision of services over the Internet is evolving, as federal, state and foreign governments continue to adopt new, or modify existing, laws and regulations addressing data privacy and the collection, processing, storage, transfer and use of data. In some cases, data privacy laws and regulations, such as the European Union's ("EU") General Data Protection Regulation ("GDPR") that took effect in May 2018, impose new obligations directly on Salesforce as both a data controller and a data processor, as well as on many of our customers. In addition, domestic data privacy laws, such as the California Consumer Privacy Act ("CCPA"), which will take effect in January 2020, continue to evolve and could expose us to further regulatory burdens. Further, laws such as the EU's proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals' online activities.

Although we monitor the regulatory environment and have invested in addressing these developments, such as GDPR and CCPA readiness, these laws may require us to make additional changes to our services to enable us or our customers to meet the new legal requirements, and may also increase our potential liability exposure through higher potential penalties for non-compliance. These new or proposed laws and regulations are subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our services, require us to take on more onerous obligations in our contracts, restrict our ability to store, transfer and process data or, in some cases, impact our ability or our customers' ability to offer our services in certain locations, to deploy our solutions, to reach current and prospective customers, or to derive insights from customer data globally. For example, ongoing legal challenges in Europe to the mechanisms allowing companies to transfer personal data from the European Economic Area to the United States could result in further limitations on the ability to transfer data across borders, particularly if governments are unable or unwilling to reach new or maintain existing agreements that support cross-border data transfers, such as the EU-U.S. and Swiss-U.S. Privacy Shield framework. Additionally, certain countries have passed or are considering passing laws requiring local data residency. The costs of compliance with, and other burdens imposed by, privacy laws, regulations and standards may limit the use and adoption of our services, reduce overall demand for our services, make it more difficult to meet expectations from or commitments to customers, lead to significant fines, penalties or liabilities for noncompliance, impact our reputation, or slow the pace at which we close sales transactions, any of which could harm our business.

In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on our ability to provide our services globally. Our customers expect us to meet voluntary certification and other standards established by third parties, such as TRUSTe. If we are unable to

maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

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

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

We derive a significant portion of our revenue from subscriptions to our CRM enterprise cloud computing application services, and we expect this will continue for the foreseeable future. Our efforts to expand our services beyond the CRM market may not succeed and may reduce our revenue growth rate. The markets for certain of our offerings, including our Einstein artificial intelligence, data management platform and collaboration offerings, remain relatively new and it is uncertain whether our efforts, and related investments, will ever result in significant revenue for us. In addition, we may be required to continuously enhance our artificial intelligence offerings so that quality recommendations can be provided to our customers. Further, the introduction of significant platform changes and upgrades, including our Lightning platform and Customer 360 platform, may not succeed and early stage interest and adoption of such new services may not result in long term success or significant revenue for us.

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

If we are unable to develop enhancements to and new features for our existing or new services that keep pace with rapid technological developments, our business could be harmed. The success of enhancements, new features and services depends on several factors, including the timely completion, introduction and market acceptance of the feature, service or enhancement by customers, administrators and developers, as well as our ability to seamlessly integrate all of our service offerings and develop adequate selling capabilities in new markets. Failure in this regard may significantly impair our revenue growth as well as negatively impact our operating results if the additional costs are not offset by additional revenues. In addition, because our services are designed to operate over various network technologies and on a variety of mobile devices, operating systems and computer hardware and software platforms using a standard browser, we will need to continuously modify and enhance our services to keep pace with changes in Internet-related hardware, software, communication, browser, app development platform and database technologies, as well as continue to maintain and support our services on legacy systems. We may not be successful in either developing these modifications and enhancements or in bringing them to market timely. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development or service delivery expenses. Any failure of our services to operate effectively with future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and harm our business.

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

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

Acquisitions and other transactions, arrangements, and investments involve numerous risks and could create unforeseen operating difficulties and expenditures, including:

- potential failure to achieve the expected benefits on a timely basis or at all;
- difficulties (including potential delays, remedies or other restrictions imposed by regulatory authorities, such as the review of our Tableau acquisition by the United Kingdom Competition & Markets Authority) in, and the cost of, integrating operations, technologies, services, platforms and personnel;
- the inability to obtain the regulatory approvals necessary to complete transactions or to integrate operations, or potential remedies imposed by regulatory authorities either as a condition to or following the completion of a transaction, which may include divestitures, ownership or operational restrictions or other structural or behavioral remedies;
- 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;
- failure to assimilate acquired employees, which may lead to retention risk with respect to both key acquired employees and our existing key employees or disruption to existing teams;
- differences between our values and those of our acquired companies;
- difficulties in re-training key employees of acquired companies and integrating them into our organizational structure and corporate culture;
- difficulties in and financial costs of addressing acquired compensation structures inconsistent with our compensation structure;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- inability to maintain relationships with customers and partners of the acquired business;
- challenges with the acquired company's third-party service providers, including those that are required for ongoing access to third-party data;
- changes to customer relationships or customer perception of the acquired business as a result of the acquisition;
- challenges converting and forecasting the acquired company's revenue recognition policies including subscription-based revenues and revenues based on the transfer of control, as well as appropriate allocation of the customer consideration to the individual deliverables;
- 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;
- potential for acquired products to impact the profitability of existing products;
- potential identified or unknown security vulnerabilities in acquired products that expose us to additional security risks or delay our ability to integrate the product into our service offerings or recognize the benefits of our investment;
- difficulties in increasing or maintaining the security standards for acquired technology consistent with our other services, and related costs;
- potential unknown liabilities associated with the acquired businesses;
- challenges relating to the structure of an investment, such as governance, accountability and decision-making conflicts that may arise in the context of a joint venture or other majority ownership investments;
- 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 unearned revenue and unbilled unearned revenue;
- delays in customer purchases due to uncertainty related to any acquisition;
- ineffective or inadequate controls, procedures and policies at the acquired company;
- in the case of foreign acquisitions, challenges caused by integrating operations over distance, and across different languages, cultures and political environments;
- 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 and costs of any such acquisitions including the related integration into our tax structure and assessment of the impact on the realizability of our future tax assets or liabilities.

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

loans, our existing stockholders may be diluted, or we could face constraints related to the terms of, and repayment obligation related to, the incurrence of indebtedness that could affect the market price of our common stock.

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

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

Further, in some cases, industry-specific laws, regionally-specific, or product-specific laws, regulations, or interpretive positions may also apply directly to us as a service provider. The interpretation of many of these statutes, regulations, and rulings is evolving in the courts and administrative agencies and an inability to comply may have an adverse impact on our business and results. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business. For example, there are various statutes, regulations, and rulings relevant to the direct email marketing and text-messaging industries, including the Telephone Consumer Protection Act (TCPA) and related Federal Communication Commission (FCC) orders, which impose significant restrictions on the ability to utilize telephone calls and text messages to mobile telephone numbers as a means of communication, when the prior consent of the person being contacted has not been obtained. We have been, and may in the future be, subject to one or more class-action lawsuits, as well as individual lawsuits, containing allegations that one of our businesses or customers violated the TCPA. A determination that we or our customers violated the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

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

We continue to experience significant growth in our customer base and personnel, particularly through acquisitions, which has placed a strain on our management, administrative, operational and financial infrastructure. We anticipate that significant additional investments will be required to scale our operations and increase productivity, to address the needs of our customers, to further develop and enhance our services, to expand into new geographic areas, and to scale with our overall growth. The additional investments we are making will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term.

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

Our success will depend in part upon the ability of our senior management to manage our projected growth effectively. To do so, we must continue to increase the productivity of our existing employees and to hire, train and manage new employees as needed. To manage the expected domestic and international growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls, our reporting systems and procedures, and our utilization of real estate. If we fail to successfully scale our operations and increase productivity, we may be unable to execute our business plan and the fair value of our common stock could decline.

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

The market for enterprise applications and platform services is highly competitive, rapidly evolving and fragmented, and subject to changing technology, low barriers to entry, shifting customer needs and frequent introductions of new products and services. Many prospective customers have invested substantial personnel and financial resources to implement and integrate their current enterprise software into their businesses and therefore may be reluctant or unwilling to migrate away from their

current solution to an enterprise cloud computing application service. Additionally, third-party developers may be reluctant to build application services on our platform since they have invested in other competing technology platforms.

Our current competitors include:

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

Some of our current and potential competitors may have competitive advantages, such as greater name recognition, longer operating histories, significant installed bases, broader geographic scope, and larger marketing budgets, as well as substantially greater financial, technical, personnel, and other resources. In addition, many of our current and potential competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers. We also experience competition from smaller, younger competitors that may be more agile in responding to customers' demands. These competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements or provide competitive pricing. As a result, even if our services are more effective than the products and services that our competitors offer, potential customers might select competitive products and services in lieu of purchasing our services. For all of these reasons, we may not be able to compete successfully against our current and future competitors, which could negatively impact our future sales and harm our business.

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

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

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

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

We are subject to risks associated with our strategic investments, including partial or complete loss of invested capital. Significant changes in the fair value of this portfolio, including changes in the market prices of our investments in public companies and impairments of privately held companies, could negatively impact our financial results.

We have strategic investments in publicly traded and privately held companies, which range from early-stage companies to more mature companies with established revenue streams and business models. 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 privately held 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. Likewise, the financial success of our investment in any publicly held company is typically dependent upon an exit in favorable market conditions, and to a lesser extent on liquidity events. The capital markets for public offerings and acquisitions are dynamic and the likelihood of a successful 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.

As the enterprise cloud computing ecosystem has matured, the opportunities in which we can invest have expanded to include investments in companies concurrently with an initial public offering in addition to our investments in early to late stage companies. Therefore, our investment strategy and portfolio has also expanded to include more mature companies. In certain cases, our ability to sell these investments may be constrained by contractual obligations to hold the securities for a period of time after a public offering, including market standoff agreements and lock-up agreements.

We record all fair value adjustments of our publicly traded and privately held equity investments through the condensed consolidated statement of operations. As a result, we may experience additional volatility to our statements of operations due to changes in market prices of our investments in publicly held equity investments and the valuation and timing of observable price changes or impairments of our investments in privately held securities. Our ability to mitigate this volatility in any given period may be impacted by our contractual obligations to hold securities for a set period of time. This volatility has been and could continue to be material to our results in any given quarter and may cause our stock price to decline. While historically our investment portfolio has had a positive impact on our financial results, that may not be true for future periods, particularly in periods of significant market fluctuations which affect our strategic investments portfolio.

All of our investments, especially our investments in privately held companies, are subject to a risk of a partial or total loss of investment capital. In addition, in the future we may deploy material investments in individual investee companies, resulting in the concentration of risk in a small number of companies. Changes in the fair value or partial or total loss of investment capital of these individual companies could be material to our financial statements.

Our quarterly results are likely to fluctuate, which may cause the value of our common stock to decline substantially.

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

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

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the attrition rates for our services;
- the rate of expansion and productivity of our sales force;
- the length of the sales cycle for our services;
- new product and service introductions by our competitors;
- our success in selling our services to large enterprises;
- changes in unearned revenue and the Remaining Performance Obligation, due to seasonality, the timing of and compounding effects of renewals, invoice duration, size and timing, new business linearity between quarters and within a quarter, average contract term, the collectibility of invoices related to multiyear agreements, the timing of license software revenue recognition, or fluctuations due to foreign currency movements, all of which may impact implied growth rates;
- our ability to realize benefits from strategic partnerships, acquisitions or investments;
- general economic or geopolitical conditions, which may adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their services, or delay a prospective customer's purchasing decision, reduce the value of new subscription contracts, or affect attrition rates;
- variations in the revenue mix of our services and growth rates of our cloud subscription and support offerings, including the timing of software license sales and sales offerings that include an on-premise software element for which the revenue allocated to that deliverable is recognized upfront;
- the seasonality of our sales cycle, including software license sales, and timing of contract execution and the corresponding impact on revenue recognized at a point in time;
- changes in our pricing policies and terms of contracts, whether initiated by us or as a result of competition;

- changes in payment terms and the timing of customer payments and payment defaults by customers;
- the seasonality of our customers' businesses, especially Commerce Cloud customers, including retailers and branded manufacturers;
- fluctuations in foreign currency exchange rates such as with respect to the British Pound Sterling;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the number of new employees;
- the timing of commission, bonus, and other compensation payments to employees;
- the cost, timing and management effort required for the introduction of new features to our services;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integration and consolidating the results of acquired businesses;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- income tax effects resulting from, but not limited to, tax law changes, court decisions on tax matters, global tax developments applicable to multinationals, changes in operations or business structures, and acquisition activity;
- the timing of payroll and other withholding tax expenses, which are triggered by the payment of bonuses and when employees exercise their vested stock awards;
- technical difficulties or interruptions in our services;
- changes in interest rates and our mix of investments, which would impact the return on our investments in cash and marketable securities;
- conditions, particularly sudden changes, in the financial markets, which have impacted and may continue to impact the value and liquidity of our investment portfolio;
- changes in the fair value of our strategic investments in early-to-late stage privately held and public companies, which could negatively and materially impact our financial results, particularly in periods of significant market fluctuations;
- equity issuances, including as consideration in acquisitions;
- the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards on a straight-line basis over their vesting schedules;
- evolving regulations of cloud computing and cross-border data transfer restrictions and similar regulations;
- regulatory compliance costs; and
- the impact of new accounting pronouncements and associated system implementations, for example, the adoption of Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which includes the accounting for lease assets and lease liabilities.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our operating results to vary widely. If we fail to meet or exceed operating results expectations or if securities analysts and investors have estimates and forecasts of our future performance that are unrealistic or that we do not meet, the market price of our common stock could decline. In addition, if one or more of the securities analysts who cover us adversely change their recommendation regarding our stock, the market price of our common stock could decline.

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

Due to the pace of change and innovation in enterprise cloud computing services, the unpredictability of future general economic and financial market conditions, the impact of foreign currency exchange rate fluctuations, the growing complexity of our business, including the use of multiple pricing and packaging models, and our increasing focus on enterprise cloud computing services, we may not be able to realize our projected revenue growth plans. We plan our expense levels and investment on estimates of future revenue and future anticipated rate of growth. We may not be able to adjust our spending appropriately if the addition of new subscriptions or the renewals of existing subscriptions fall short of our expectations. A

portion of our expenses may also be fixed in nature for some minimum amount of time, such as with costs capitalized to obtain revenue contracts, data center and infrastructure service contracts or office leases, so it may not be possible to reduce costs in a timely manner, or at all, without the payment of fees to exit certain obligations early. As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis and revenue growth rates may not be sustainable and may decline in the future, and we may not be able to provide continued operating margin expansion, which could harm our business and cause the market price of our common stock to decline.

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

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

- localization of our services, including translation into foreign languages and associated expenses;
- regulatory frameworks or business practices favoring local competitors;
- pressure on the creditworthiness of sovereign nations, where we have customers and a balance of our cash, cash equivalents and marketable securities;
- evolving domestic and international tax environments;
- liquidity issues or political actions by sovereign nations, including nations with a controlled currency environment, which could result in decreased values of these balances or potential difficulties protecting our foreign assets or satisfying local obligations;
- foreign currency fluctuations and controls, which may make our services more expensive for international customers and could add volatility to our operating results;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data transfer, storage and protection, and industry-specific laws and regulations, including rules related to compliance by our third-party resellers and our ability to identify and respond timely to compliance issues when they occur;
- vetting and monitoring our third-party resellers in new and evolving markets to confirm they maintain standards consistent with our brand and reputation;
- uncertainty regarding regulation, currency, tax, and operations resulting from the United Kingdom's planned exit from the EU ("Brexit") that could disrupt trade, the sale of our services and commerce, and movement of our people between the United Kingdom, EU, and other locations;
- changes in the public perception of governments in the regions where we operate or plan to operate;
- 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, which grow more complex as we scale and expand into new markets;
- treatment of revenue from international sources, intellectual property considerations 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;
- regional economic and political conditions; and
- the imposition of and changes in the United States' and other governments' trade regulations, sanctions and other restrictions.

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

Because we generally 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 and support 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 and support agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our revenue results for that quarter. Any such decline, however, will negatively impact our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services, and potential changes in our attrition rate, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription and support term.

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

Our customers have no obligation to renew their subscriptions for our services after the expiration of their contractual subscription period, which is typically 12 to 36 months, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or switch to lower cost offerings of our services. It is difficult to predict attrition rates given our varied customer base of enterprise and small and medium size business customers and the number of multi-year subscription contracts. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers' spending levels, mix of customer base, decreases in the number of users at our customers, competition, pricing increases or changes and deteriorating general economic conditions.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our services to our current customers. This may also require increasingly sophisticated and costly sales efforts that are targeted at senior management. Similarly, the rate at which our customers purchase new or enhanced services depends on a number of factors, including general economic conditions and that our customers do not react negatively to any price changes related to these additional features and services.

If customers do not renew their subscriptions, do not purchase additional features or enhanced subscriptions or if attrition rates increase, our business could be harmed.

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

Our success depends on the willingness of a growing community of third-party developers and technology providers to build applications and provide integrations, data and content that are complementary to our services. Without the continued development of these applications and provision of such integrations, data and content, both current and potential customers may not find our services sufficiently attractive, which could impact future sales. In addition, for those customers who authorize a third-party technology partner access to their data, we do not provide any warranty related to the functionality, security and integrity of the data transmission or processing. Despite contract provisions to protect us, customers may look to us to support and provide warranties for the third-party applications, integrations, data and content, even though not developed or sold by us, which may expose us to potential claims, liabilities and obligations, all of which could harm our business.

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

We primarily conduct our business in the following regions: the Americas, Europe and Asia Pacific. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, additional headcount in foreign locations, and operating in countries where the functional currency is the local currency. Specifically, our results of operations and cash flows are subject to fluctuations primarily in British Pound Sterling, Euro, Japanese Yen, Canadian Dollar and Australian Dollar against the U.S. Dollar as well as the Euro against the British Pound Sterling. These exposures may change over time as business practices evolve, economic and political conditions change and evolving tax regulations come into effect. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Furthermore, fluctuations in foreign currency exchange rates can impact our ability to accurately predict our future results and earnings. Additionally, global political events, including Brexit, and similar geopolitical developments, fluctuating commodity prices and trade tariff developments, have caused global economic uncertainty and uncertainty about the interest rate environment, which could amplify the volatility of currency fluctuations. Although we attempt to mitigate some of this volatility and related risks through foreign currency hedging, our hedging activities are limited

in scope and may not effectively offset the adverse financial impacts that may result from unfavorable movements in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

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

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

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

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

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

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

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past and may receive in the future communications from third parties, including practicing entities and non-practicing entities, claiming that we have infringed their intellectual property rights.

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

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

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

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

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

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

We may be required to spend significant resources and expense to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. If we fail to protect our intellectual property rights, it could impact our ability to protect our technology and brand. Furthermore, any litigation, whether or not it is resolved in our favor, could result in significant expense to us, cause us to divert time and resources and harm our business.

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

We believe that the brand identities we have developed have significantly contributed to the success of our business. Maintaining and enhancing the Salesforce brand and our other brands are critical to expanding our base of customers, partners and employees. Our brand strength will depend largely on our ability to remain a technology leader and continue to provide high-quality innovative products, services, and features securely, reliably and in a manner that enhances our customers' success. In order to maintain and enhance the strength of our brands, we may make substantial investments to expand or improve our product offerings and services that may be accompanied by initial complications or ultimately prove to be unsuccessful.

In addition, our services may be used by our customers for purposes inconsistent with our company values, which may harm our brand. Further, as with many innovations, AI presents additional risks and challenges that could affect its adoption and therefore our business. For example, the development of AI presents emerging ethical issues and if we enable or offer AI solutions that are controversial, due to their impact, or perceived impact, on human rights, privacy, employment, or in other social contexts, we may experience brand or reputational harm, competitive harm or legal liability.

In addition, positions we take on social and ethical issues may be unpopular with some customers or potential customers, which may impact our ability to attract or retain such customers. We may also choose not to conduct business with potential customers or discontinue business with existing customers due to these positions. Our brand is also associated with our public commitments to sustainability, equality and ethical use, and any perceived changes in our dedication to these commitments could adversely impact our relationships with our customers.

In addition, we have secured the naming rights to facilities controlled by third parties, such as office towers and a transit center, and any negative events or publicity arising in connection with these facilities could adversely impact our brand.

If we fail to maintain and enhance our brands, or if we incur excessive expenses in our efforts to do so, our business, operating results and financial condition may be materially and adversely affected.

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

Our success depends substantially upon the continued services of our executive officers and other key members of management, particularly our co-chief executive officers. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Such changes in our executive management team may be disruptive to our business. We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our services and technologies. We do not have employment agreements with

any of our executive officers, key management, development or operations personnel and they could terminate their employment with us at any time. The loss of one or more of our key employees or groups could seriously harm our business.

The technology industry is subject to 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, developing, integrating 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. These difficulties may potentially be further amplified by the high cost of living in the San Francisco Bay Area, where our headquarters are located. 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, which fosters dialogue, collaboration, recognition and a sense of family. As our organization grows and expands globally, and as employees' workplace expectations develop, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our ability to attract and retain employees or our reputation with customers and could negatively impact our future growth.

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

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

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

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

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

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Significant judgment is often required in the determination of our worldwide provision for income taxes. Our effective tax rate could be impacted by changes in the earnings and losses in countries with differing statutory tax rates, changes in operations, 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, effects from acquisitions, and changes in accounting principles and tax laws. Any changes, ambiguity, or uncertainty in taxing jurisdictions' administrative interpretations, decisions, policies and positions could also materially impact our income tax liabilities.

We may also be subject to additional tax liabilities and penalties due to changes in non-income based taxes resulting from changes in federal, state or international tax laws, changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, or changes to the business operations including acquisitions. Any resulting increase in our tax obligation or cash taxes paid could adversely affect our cash flows and financial results.

We are also subject to tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or changes 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 or financial positions.

As our business continues to grow, increasing our brand recognition and profitability, we may be subject to additional public scrutiny and income tax obligations. Furthermore, our growing prominence may bring public attention to our tax profile, and if perceived negatively, may cause brand or reputational harm.

As we utilize our tax credits and net operating loss carry-forwards, we may be unable to mitigate our tax obligations to the same extent as in prior years, which could have a material impact to our future cash flows. In addition, changes to our operating structure, including the integration of acquisitions, may result in cash tax obligations.

In addition, recent global tax developments applicable to multinational businesses may have a material impact to our business, cash flow from operating activities, or financial results. Such developments, for example, include the Organization for Economic Co-operation and Development, the European Commission, and certain major jurisdictions' taxation of the digital economy.

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

As of October 31, 2019, we had a substantial level of debt, including the 2023 and 2028 Senior Notes ("Senior Notes"), the loan we assumed when we purchased an office building located at 50 Fremont Street in San Francisco, California ("50 Fremont") due June 2023, the \$150 million remaining on the term loan to finance our acquisition of MuleSoft due May 2021 ("2021 Term Loan") and lease arrangements. In November 2019, we repaid the remaining \$150 million of the 2021 Term Loan. Additionally, we have significant contractual commitments, which are not reflected on our condensed consolidated balance sheets. In April 2018, we amended and restated our revolving credit facility under which we can draw down up to \$1.0 billion. Maintenance of our indebtedness and contractual commitments and any additional issuances of indebtedness could:

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

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. Any new or refinanced debt may be subject to substantially higher interest rates, which could adversely affect our financial condition and impact our business.

In addition, adverse changes by any rating agency to our credit rating may negatively impact the value and liquidity of both our debt and equity securities, as well as the potential costs associated with a refinancing of our debt. Downgrades in our credit ratings could also affect the terms of any such refinancing or future financing or restrict our ability to obtain additional financing in the future.

Our senior unsecured notes and senior unsecured credit agreements impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. 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 debt and borrowings. Any required repayment of our debt 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 requires that we now record a liability for operating lease activity on our condensed consolidated balance sheet, which resulted in an increase in both our assets and liabilities. The implementation of this guidance, including the increase in operating and finance lease liabilities on our condensed consolidated balance sheet, may impact our ability to obtain the necessary financing from financial institutions at commercially viable rates or at all. Our lease terms may include options to extend or terminate the lease. These options are reflected in the operating lease right-of-use ("ROU") asset, which represents our right to use an underlying asset for the lease term, and lease liability only when it is reasonably certain that we will exercise that option. We reassess the lease term if and when a significant event or change in circumstances occurs within our control. The potential impact of these options to extend could be material to our financial position and financial results.

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

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

and increase the volatility of global financial markets. Moreover, these conditions can affect the rate of information technology spending and could adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our future sales and operating results.

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

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

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

While we seek to mitigate our business risks associated with climate change by establishing robust environmental programs and partnering with organizations who are also focused on mitigating their own climate related risks, we recognize that there are inherent climate related risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices, data centers, vendors, customers or other stakeholders, is a priority. Any of our primary locations may be vulnerable to the adverse effects of climate change. For example, our California headquarters are projected to be vulnerable to future water scarcity due to climate change. Climate related events, including the increasing frequency of extreme weather events and their impact on U.S. critical infrastructure, have the potential to disrupt our business, our third-party suppliers, or the business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

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

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

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

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

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

Our solutions are subject to export and import controls, including the Commerce Department's Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of Foreign Assets Control. If we fail to comply with these U.S. export control laws and import laws we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of export or import privileges; fines, which may be imposed on us and responsible employees or managers; and, in extreme cases, the incarceration of responsible employees or managers. Obtaining the necessary authorizations, including any required license, may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Furthermore, the U.S. export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being

provisioned or provided to U.S. sanctions targets in violation of applicable regulations, 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 Related to Our Common Stock

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

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

- variations in our operating results, earnings per share, cash flows from operating activities, unearned revenue, remaining performance obligation, year-over-year growth rates for individual service offerings and other financial metrics and non-financial metrics, such as transaction usage volumes and other usage 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, for example, future revenue, unearned revenue, remaining performance obligation, cash flows from operating activities and earnings per share, the accuracy of which may be impacted by various factors, many of which are beyond our control, including general economic and market conditions and unanticipated delays in the integration of acquired companies as a result of regulatory review;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- the coverage of our common stock by the financial media, including television, radio and press reports and blogs;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software, network or data center problems;
- the economy as a whole, geopolitical conditions, including global trade concerns, 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 or a capital raising transaction;
- issuance of debt or other convertible securities; and
- environmental, social, governance and other issues impacting the Company's reputation.

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

Provisions in our amended and restated certificate of incorporation and bylaws 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;
- authorize the issuance of “blank check” preferred stock that our board could use to implement a stockholder rights plan (also known as a “poison pill”);
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In connection with the acquisition of MetaMind, Inc. in April 2016, the Company issued 11,652 shares of Company common stock on October 1, 2019. This issuance was made in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”): Section 4(a)(2) of the Securities Act, Regulation D promulgated under the Securities Act, and Regulation S promulgated under the Securities Act.

In connection with the acquisition of ClickSoftware, the Company issued 4,487,914 shares of Company common stock on October 1, 2019. This issuance was 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, Regulation D promulgated under the Securities Act, and Regulation S promulgated under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

Exhibit No.	Exhibit Description	Index to Exhibits Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of salesforce.com, inc.		8-K	001-32224	3.1	6/7/2019
3.2	Amended and Restated Bylaws of salesforce.com, inc.		8-K	001-32224	3.2	6/7/2019
10.1	Optimizer TopCo S.A.R.L. 2015 Share Incentive Plan.		S-8	333-234072	4.3	10/3/2019
10.2	Gratitude Bonus Plan, as amended and restated August 21, 2019, effective August 21, 2019		10-Q	001-32224	10.4	8/23/2019
31.1	Certification of Co-Chief Executive Officer, Marc Benioff, pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Co-Chief Executive Officer, Keith Block, pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.3	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Extension Definition					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2019, formatted in Inline XBRL (included in Exhibit 101).					

SIGNATURES

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

Dated: December 4, 2019

salesforce.com, inc.

By: /S/ MARK J. HAWKINS
Mark J. Hawkins
President and
Chief Financial Officer
(Principal Financial Officer)

Dated: December 4, 2019

salesforce.com, inc.

By: /S/ JOE ALLANSON
Joe Allanson
Executive Vice President,
Chief Accounting Officer
and Corporate Controller
(Principal Accounting Officer)

CERTIFICATION

I, Marc Benioff, certify that:

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

December 4, 2019

/S/ MARC BENIOFF

Marc Benioff

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

CERTIFICATION

I, Keith Block, certify that:

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

December 4, 2019

/s/ KEITH BLOCK

Keith Block
Co-Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Mark J. Hawkins, certify that:

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

December 4, 2019

/s/ MARK J. HAWKINS

Mark J. Hawkins
President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CO-CHIEF EXECUTIVE OFFICERS AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Based on my knowledge, I, Marc Benioff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

December 4, 2019

/S/ MARC BENIOFF

Marc Benioff
Chairman of the Board of Directors and
Co-Chief Executive Officer
(Principal Executive Officer)

Based on my knowledge, I, Keith Block, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

December 4, 2019

/S/ KEITH BLOCK

Keith Block
Co-Chief Executive Officer
(Principal Executive Officer)

Based on my knowledge, I, Mark J. Hawkins, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended October 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

December 4, 2019

/S/ MARK J. HAWKINS

Mark J. Hawkins
President and Chief Financial Officer
(Principal Financial Officer)