

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

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 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

Name of each exchange on which registered

New York Stock Exchange, Inc.

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

Not applicable

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

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

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

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

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

| | | | |
|-------------------------|----|---------------------------|----|
| Large accelerated filer | x | 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 x

Based on the closing price of the Registrant’s Common Stock on the last business day of the Registrant’s most recently completed second fiscal quarter, which was July 31, 2018, the aggregate market value of its shares (based on a closing price of \$137.15 per share) held by non-affiliates was approximately \$80.0 billion. Shares of the Registrant’s Common Stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant’s outstanding Common Stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2019, there were approximately 771 million shares of the Registrant’s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement for its 2019 Annual Meeting of Stockholders (the “Proxy Statement”), to be filed within 120 days of the Registrant’s fiscal year ended January 31, 2019, are incorporated by reference in Parts II and III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“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 competitive nature of the market in which we participate; our international expansion strategy; our service performance and security, including the resources and costs required to prevent, detect and remediate potential security breaches; the expenses associated with new data centers and third-party infrastructure providers; additional data center capacity; real estate and office facilities space; our operating results and cash flows; new services and product features; our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights; the performance and fair value of our investments in complementary businesses through our strategic investment portfolio; our ability to realize the benefits from strategic partnerships, joint ventures and investments; 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, including the U.S. Tax Cuts and Jobs Act, and interpretations thereof; uncertainties affecting our ability to estimate our tax rate; the impact of future gains or losses from our strategic investment portfolio, including gains or losses from overall market conditions which may affect the publicly traded companies within our strategic investment portfolio; 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 capital lease obligations; current and potential litigation involving us; and the impact of climate change. These and other risks and uncertainties may cause our actual results to differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below under “Risk Factors” and elsewhere in this report for additional detail regarding factors that may cause actual results to be different than those expressed in our forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

PART I.

ITEM 1. BUSINESS

Overview

Salesforce is a global leader in customer relationship management (“CRM”) technology that enables companies to improve their relationships and interactions with customers. Founded in 1999, Salesforce empowers companies 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”) and artificial intelligence (“AI”), to grow their business and work more productively.

The Salesforce Customer Success Platform delivers services spanning sales, service, marketing, commerce, engagement, integration, analytics, industries, communities, enablement and collaboration, most of which operate on a single trusted cloud platform. Our service offerings are designed to be intuitive and easy to use. They can be deployed quickly via mobile devices and major internet browsers, configured easily, and integrated with other platforms and enterprise applications. We sell to businesses worldwide primarily on a subscription basis, through our direct sales efforts and also indirectly through partners. Through our platform and other developer tools, we also enable third parties to develop additional functionality and new applications, or apps, that run on our platform, which are sold separately from—or in conjunction with—our service offerings.

Salesforce operates based on a core set of values: trust, customer success, innovation and equality. Foremost among these is trust, which is the foundation for everything we do. Our customers trust our technology to deliver the highest levels of security, reliability and availability at scale. We believe our continuous innovation and the democratization of both technology

and innovation drives customer success, which in turn drives mutual growth. In addition, we have spearheaded initiatives that foster a culture of equal pay, equal advancement, equal opportunity and equal rights for our more than 35,000 employees as a leading example for the broader world.

We believe the business of business is improving the state of the world for all of our stakeholders, including our stockholders, our customers, our employees, the environment and the communities in which we work and live. Salesforce is committed to transparent environmental, social and governance disclosures and maintaining programs that support the success of these initiatives. Refer to our "Environmental, Social and Governance" discussion in Part II, Item 7 of this Annual Report on Form 10-K, which is incorporated herein by reference.

We were incorporated in Delaware in February 1999. Our principal executive offices are located in San Francisco, California. Our principal address is Salesforce Tower, 415 Mission St, 3rd Floor, San Francisco, California 94105, and our primary website address is www.salesforce.com.

Our Service Offerings

Our cloud service offerings are as follows:

Sales Cloud. Sales Cloud empowers sales teams of companies of every size and industry to sell faster, smarter and in the way they want. Our customers use Sales Cloud to store data, monitor leads and progress, forecast opportunities, gain insights through analytics and relationship intelligence, and deliver quotes, contracts and invoices.

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

Marketing and Commerce Cloud. Marketing Cloud enables companies to plan, personalize and optimize one-to-one customer marketing journeys, including interactions across email, mobile, social, web and connected products. In addition, companies can segment and target audiences to power precise digital marketing at scale. With Marketing Cloud, customer data can also be integrated with Sales Cloud and Service Cloud in the form of leads, contacts and customer service cases to give companies a complete view of their customers. Our Commerce Cloud empowers brands to unify the customer experience across all points of commerce, including mobile, web, social and store. With embedded AI that delivers a personalized shopping experience and a robust partner ecosystem, Commerce Cloud helps companies drive increased engagement, conversion, revenue and loyalty from their customers.

Salesforce Platform and Other. The Salesforce Platform includes:

Lightning Platform. Lightning Platform empowers Information Technology ("IT"), developers and business users with the industry's leading no-code to pro-code Platform-as-a-Service tools for building, securing, integrating and managing the business apps that power today's customer experiences. With the Lightning Platform, enterprises drive digital transformation at scale by building applications for any business need. Lightning Platform includes complete, intelligent analytics capabilities so customers can explore their business data, uncover new insights, make smarter decisions and take action from any device. Lightning Platform also includes Trailhead for Enablement, our free, gamified, interactive online learning platform that allows anyone to learn in-demand Salesforce skills, including administering our services and developing on the Salesforce Platform. Lightning Platform also includes our Heroku Engagement Platform, which enables developers to build, run and operate applications entirely in the cloud.

Integration. MuleSoft Anypoint Platform enables our customers to connect any system, application, data or device, whether in the cloud or on-premises, on a unified platform using application networks instead of inflexible custom code. By unlocking data across their enterprise, our customers can create new revenue opportunities, increase operational efficiency and create differentiated customer experiences.

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

Most of our service offerings operate on a single customer success platform and are deployed in an identical way even though we have offerings in multiple enterprise cloud computing markets, including as a result of our acquisitions. Our core offerings are suited to meet the needs of our customers in certain industries, such as solutions for financial services, healthcare and government. Additionally, our core offerings enable companies to quickly create and manage trusted, branded digital destinations for customers, partners and employees, collectively referred to as community management. This allows companies to engage and collaborate directly with groups of people by giving them access to relevant information, apps and experts.

Additionally, through Salesforce Customer 360, our new cross-cloud technology initiative that enhances the integration of our Marketing, Commerce, and Service clouds, we will enable companies to connect their customer data across the various offerings and deliver a unified customer experience. Customer 360 is designed to help companies move beyond an app- or department-specific view of each customer by making it easier to create a single, holistic customer profile to inform every interaction.

Business Benefits of Using Our Solution

The key advantages of our solutions include the following:

- A multi-tenant application architecture designed to enable our service offerings to scale securely, reliably and cost effectively.
- Rapid deployment and lower total cost of ownership with multiple releases per year deployed automatically with new features and functionality.
- Ease of integration and configuration with application programming interfaces that enable customers to integrate our solutions with existing third-party, custom and legacy apps, as well as write their own application services that integrate with our solutions.
- Solutions designed to be intuitive and easy to use with minimal training.
- Rapid development of apps without having to invest in hardware by providing infrastructure and development environments on demand.
- Continuous innovation through our Ideas Exchange, which is a forum to provide feedback and suggest new features for future service releases.
- Positive environmental impact with our multi-tenant cloud computing model that has a smaller environmental footprint than traditional hardware and software.

Our Growth Strategy

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

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

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

Reducing customer attrition. We strive to reduce attrition and secure renewals of existing customer subscriptions prior to the end of their contractual terms with us through, among other things, customer success and other related programs.

Expanding and strengthening the partner ecosystem. We continue to work with and invest in strategic system integrators ("SIs") and independent software vendors ("ISVs") to accelerate our reach into new markets and industries, offer a variety of solutions natively and through the AppExchange, our enterprise cloud marketplace, and address the business requirements of both current and future customers.

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

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

Expanding into new horizontal markets. As part of our growth strategy, which is driven both organically and through acquisitions, we are delivering innovative solutions in new categories, including analytics, commerce, IoT and integration, and expect to continue this type of horizontal expansion in the future.

Extending go-to-market capabilities. We believe that our offerings provide significant value for businesses of any size. We will continue to pursue businesses of all sizes in top industries and major regions globally, primarily through our direct sales force. We have steadily increased and plan to continue to increase the number of direct sales professionals we employ, and we intend to develop additional distribution channels for our solutions around the globe.

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

Encouraging the development of third-party applications on our cloud computing platform. The Lightning Platform enables customers, ISVs and third-party developers to create and deliver cloud-based apps. It is a platform on which apps can be created, tested, published and run. In addition, these apps can be marketed and sold on the AppExchange or sold directly by software vendors. We believe our ecosystem of developers and software vendors will help address the business requirements of both current and future customers.

In addition to the key elements of our growth strategy described above, from time to time, we evaluate opportunities to acquire or invest in complementary businesses, services, technologies and intellectual property rights. These evaluations resulted in our acquisition of several companies in fiscal 2019, including MuleSoft, Inc. ("MuleSoft") and Datorama, Inc. ("Datorama") which expanded our integration and marketing capabilities.

Technology, Development and Operations

We deliver our Salesforce solutions as highly scalable, cloud computing application and platform services on a multi-tenant technology architecture. We also offer integration capabilities in the cloud, as well as on-premises, to provide our customers more options to integrate their data. Multi-tenancy is an architectural approach that allows us to operate a single application instance for multiple organizations, treating all customers as separate tenants who run in virtual isolation from each other. This approach allows us to spread the cost of delivering our services across our user base and scale our business faster than traditional software vendors while focusing our resources on building new functionality.

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

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

Competition

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

Our current competitors include:

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

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

Sources of Revenue

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

We derive our revenues primarily from subscription revenues from our enterprise cloud computing services, software licenses and support fees for our services. We also derive revenues from related professional services via our Customer Success Group.

For our subscription and support offerings, we recognize subscription and support revenue ratably over the contract term, beginning on the commencement date of each contract. For software license sales, which resulted from our May 2018 acquisition of MuleSoft, revenues are generally recognized upfront when the software is made available to the customer. We enter into professional services contracts that are on a time and materials, fixed fee or subscription basis. We recognize revenue over time as the services are rendered for time and materials contracts, on a proportional performance basis for fixed price contracts and ratably over the contract term for subscription professional services.

Amounts that have been invoiced are recorded in accounts receivable and in either unearned revenue or revenue, depending on whether the revenue recognition criteria have been met. Unearned revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services and is recognized as the revenue recognition criteria are met. Remaining performance obligations, representing future revenues that are under contract but have not yet been recognized, are not recorded in unearned revenue. We generally invoice customers annually. Typical payment terms provide that our customers pay us within 30 days of invoice.

Unearned revenue and remaining performance obligation are influenced by several factors, including new business seasonality within the year, the specific timing, size and duration of large customer subscription agreements, the timing and compounding effects of customer renewals, varying billing cycles of subscription agreements, invoice timing, foreign currency fluctuations and new business linearity. Our fourth quarter has historically been our strongest quarter for new business and renewals, and our first quarter is generally our largest collections and operating cash flow quarter. For a more detailed discussion, see the “Seasonal Nature of Unearned Revenue, Accounts Receivable and Operating Cash Flow” discussion in Management’s Discussion and Analysis.

Refer to our "Liquidity and Capital Resources" discussion in Part II, Item 7 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Customers

We sell to businesses of all sizes and in almost every industry worldwide. The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues in fiscal 2019, 2018 or 2017.

Customer Service and Support

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

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

Sales and Marketing

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

To a lesser extent, we also have a network of partners who refer sales leads to us and who then assist in selling to these prospects. This network includes global consulting firms, systems integrators and other partners. In return, we typically pay

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

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

Our primary marketing activities include:

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

We organize our sales and marketing programs by geographic regions, such as the Americas, Europe and Asia Pacific, which includes Japan.

Strategic Investments

We invest in early- to late-stage technology and professional cloud service companies across the globe to support our business initiatives, which include, among other things, extending the capabilities of our platform and service offerings, increasing the ecosystem of enterprise cloud companies and partners, accelerating the adoption of cloud technologies and creating the next-generation of AI, mobile applications and connected products. Our minority investments in over 240 companies as of January 31, 2019 also help us stay connected with the rapid pace of innovation that is currently occurring within the technology industry. In some cases, we have acquired companies in which we have previously invested. Due to the inherent risk in investing, our individual investments are subject to a risk of partial or total loss of investment capital. 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 the market price of publicly traded companies within our strategic investment portfolio.

Intellectual Property

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

Employees

As of January 31, 2019, we had more than 35,000 employees. None of our employees in the United States are represented by a labor union. However, for certain foreign subsidiaries, works councils represent our employees.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the Securities and Exchange Commission (“SEC”), and all amendments to these filings, can be obtained free of charge from our website at <http://investor.salesforce.com/about-us/investor/financials/> or by contacting our Investor Relations department at our office address listed above following our filing of any of these reports with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company’s references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, 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, 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. 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 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 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 European Union's proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals' online activities.

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 Salesforce 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 and data integration 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. In particular, in May 2018, we completed our largest acquisition to date of MuleSoft, for \$6.4 billion, which we are continuing to integrate. 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 in, and the cost of, integrating operations, technologies, services, platforms and personnel;
- diversion of financial and managerial resources from existing operations;
- the potential entry into new markets in which we have little or no experience or where competitors may have stronger market positions;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- failure to assimilate acquired employees which may lead to retention risk of both key acquired employees or 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;
- 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;
- increasing or maintaining the security standards for acquired technology consistent with our other services;
- 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 may negatively impact our results of operations;
- 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. In addition, to facilitate these acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all, which may affect our ability to complete subsequent acquisitions or investments, and which may affect the risks of owning our common stock. For example, if we finance acquisitions by issuing equity or convertible or other debt securities or loans, our existing stockholders may be diluted, or we could face constraints related to the terms of, and repayment obligation related to, the incurrence of indebtedness that could affect the market price of our common stock.

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

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

Further, in some cases, industry-specific laws, 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, 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 requires continuous innovation and is highly competitive, rapidly evolving and fragmented, and subject to changing technology and 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 (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
- Artificial intelligence solutions from new startups and established companies.

Some of our current and potential competitors may have competitive advantages, such as greater name recognition, longer operating histories, significant installed bases, broader geographic scope, and larger marketing budgets, as well as substantially greater financial, technical, 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, could negatively impact our financial results.

We invest in early-to-late stage companies for strategic reasons and to support key business initiatives, and may not realize a return on our strategic investments. Many such companies generate net losses and the market for their products, services or technologies may be slow to develop, and, therefore, are dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations. The financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. The capital markets for public offerings and acquisitions are dynamic and the likelihood of liquidity events for the companies we have invested in could significantly worsen.

Further, valuations of privately held companies are inherently complex due to the lack of readily available market data.

Upon adoption of ASU 2016-01 in the first quarter of fiscal 2019, we are now required to record all fair value adjustments of our publicly traded and privately held equity investments through the 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. This volatility has been and could continue to be material to our results in any given quarter based on market conditions and events 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.

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

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

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

- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers' requirements;
- the attrition rates for our services;
- the rate of expansion and productivity of our sales force;
- the length of the sales cycle for our services;
- new product and service introductions by our competitors;
- our success in selling our services to large enterprises;
- our ability to realize benefits from strategic partnerships, acquisitions or investments;
- general economic 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;
- 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 timing of license software revenue recognition, or fluctuations due to foreign currency movements, all of which may impact implied growth rates;
- the seasonality of our customers' businesses, especially Commerce Cloud customers, including retailers and branded manufacturers;
- changes in foreign currency exchange rates such as with respect to the British Pound;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the number of new employees;
- the timing of commission, bonus, and other compensation payments to employees;
- the cost, timing and management effort for the introduction of new features to our services;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integration and consolidating the results of acquired businesses;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- income tax effects, including the impact of changes in U.S. federal and state and international tax laws applicable to corporate multinationals;
- the timing of payroll and other withholding tax expenses, which are triggered by the payment of bonuses and when employees exercise their vested stock awards;
- technical difficulties or interruptions in our services;
- changes in interest rates and our mix of investments, which would impact the return on our investments in cash and marketable securities;
- conditions, particularly sudden changes, in the financial markets, which have impacted and may continue to impact the value of and liquidity of our investment portfolio;
- changes in the fair value of our strategic investments in early-to-late stage 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 contracts or office leases, so it may not be possible to reduce costs in a timely manner, or at all, without the payment of fees to exit certain obligations early. As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis and revenue growth rates may not be sustainable and may decline in the future, and we may not be able to provide continued operating margin expansion, which could harm our business and cause the market price of our common stock to decline.

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

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

- localization of our services, including translation into foreign languages and associated expenses;
- regulatory frameworks or business practices favoring local competitors;
- pressure on the creditworthiness of sovereign nations, particularly in Europe, where we have customers and a balance of our cash, cash equivalents and marketable securities;
- evolving domestic and international tax environments;
- liquidity issues or political actions by sovereign nations, 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 Brexit vote that could disrupt trade, the sale of our services and commerce, and movement of our people between the United Kingdom, European Union, and 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; and
- regional economic and political conditions.

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

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

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

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

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

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

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

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

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

We conduct our business in the following regions: the Americas, Europe and Asia Pacific. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, additional headcount in foreign locations, and operating in countries where the functional currency is the local currency. Specifically, our results of operations and cash flows are subject to fluctuations primarily in British Pound Sterling, Euro, Japanese Yen, Canadian Dollar and Australian Dollar against the U.S. Dollar as well as the Euro against the Pound Sterling. These exposures may change over time as business practices evolve, economic 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. Additionally, global political events, including the United Kingdom's 2016 vote in favor of exiting the European Union, or "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. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to predict our future results and earnings accurately. 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 our brands, we may be required to make substantial investments that may later prove to be unsuccessful. In addition, our services, including AI predictions, may be used by our customers for purposes inconsistent with our company values, which may harm our brand. As with many innovations, AI presents risks and challenges that could affect its adoption and therefore our business. Further, the development of AI presents emerging ethical issues. 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 issues may be unpopular with some customers or potential customers, which may impact our ability to attract or retain such customers. Our brand is also associated with our public commitments to sustainability and equality, and any perceived changes in our dedication to these commitments could adversely impact our relationships with our customers. In addition, we have secured the naming rights to facilities controlled by third parties, such as office towers and a transit center, and any negative events or publicity arising 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 of Ohana, which fosters dialogue, collaboration, recognition and a sense of family. As our organization grows and expands globally, and as employees' workplace expectations develop, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our ability to attract and retain employees 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. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our service offerings to existing and prospective customers, and our business, operating results and financial position.

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

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

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

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Our income tax obligations are generally determined based on our business operations in these jurisdictions. 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 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, changes in accounting principles and tax laws in jurisdictions where we operate. Any changes, ambiguity, or uncertainty in taxing jurisdictions' administrative interpretations, decisions, policies and positions could also materially impact our income tax liabilities.

As our business continues to grow and if we become more profitable, we anticipate that our income tax obligations could significantly increase. If our existing tax credits and net operating loss carry-forwards become fully utilized, we may be unable to offset or otherwise mitigate our tax obligations to the same extent as in prior years. This could have a material impact to our future cash flows or operating results.

In addition, recent global tax developments applicable to multinational businesses, including certain approaches of addressing taxation of digital economy recently proposed or enacted by the Organization for Economic Co-operation and Development, the European Commission or certain major jurisdictions where we operate might have a material impact to our business and future cash flow from operating activities, or future 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 and financial position. In addition, our operations may

change, which may impact our tax liabilities. As our brand becomes increasingly recognizable both domestically and internationally, our tax planning structure and corresponding profile may be subject to increased scrutiny and if we are perceived negatively, we may experience brand or reputational harm.

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

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

We have a substantial level of debt, including the 2023 and 2028 Senior Notes we issued in April 2018 ("Senior Notes") due April 2023 and April 2028, 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 \$500.0 million term loan to finance our acquisition of MuleSoft, due May 2021 ("2021 term loan") and capital lease arrangements. Additionally, we have significant contractual commitments, including operating lease arrangements, which are not reflected on our consolidated balance sheets, as well as a financing obligation for a leased facility of which we are deemed the owner for accounting purposes. 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, 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. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us under our revolving credit facility could increase. 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 record operating lease activity on our consolidated balance sheet in fiscal 2020, which will result in an increase in both our assets and financing obligations. The implementation of this guidance may impact our ability to obtain the necessary financing from financial institutions at commercially viable rates or at all as this new guidance will result in a higher financing obligation on our consolidated balance sheet.

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

Our overall performance depends in part on worldwide economic and geopolitical conditions. The United States and other key international economies have experienced cyclical downturns from time to time in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These

economic conditions can arise suddenly and the full impact of such conditions can remain uncertain. In addition, geopolitical developments, such as 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 drafts thereof 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 future accounting pronouncements, such as lease accounting. Such changes may have an adverse effect on our business, financial position, and operating results, or cause an adverse deviation from our revenue and operating profit target, which may negatively impact our financial results.

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

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

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

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

export control laws and economic sanctions laws prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being provisioned or provided to U.S. sanctions targets 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 core 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;
- 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, 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; and
- issuance of debt or other convertible securities.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2019, our executive and principal offices for sales, marketing, professional and administrative services and development consist of approximately 2.1 million square feet of leased and owned property in San Francisco. Of this total, we lease and occupy approximately 1.2 million square feet and own and occupy a majority of the approximately 820,000 square feet of total owned space at 50 Fremont Street. Of the total leased and owned space in San Francisco, 1.9 million square feet is concentrated in our urban campus, which includes 50 Fremont Street, 350 Mission Street, and Salesforce Tower located at 415 Mission Street (“Salesforce Tower”), collectively defined as our “Urban Campus”. Each of the three buildings occupy one of the four corners of a major intersection in downtown San Francisco. In addition, we lease approximately 644,000 square feet in San Francisco which is either currently sublet or scheduled for disposition in fiscal 2020. This space is not included in the amounts above.

In November 2018, we entered into a lease agreement for approximately 324,000 rentable square feet of office space in a building to be constructed as part of our urban campus in San Francisco, California. As of January 31, 2019, construction has not commenced on the building and is dependent on the developer obtaining approvals from the City and County of San Francisco. We expect to begin occupying the space in fiscal 2024.

We also lease space in various locations throughout the United States for local sales and professional services personnel. Our foreign subsidiaries lease office space in a number of countries in Europe, North America, Asia, South America, Africa and Australia for our international operations, primarily for local sales and professional services personnel.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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 the Company's business, financial condition, results of operations or cash flows.

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

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

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

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

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding our current executive officers as of March 1, 2019 (in alphabetical order):

| Name | Age | Position |
|-----------------------|------------|--|
| Joe Allanson | 55 | Chief Accounting Officer and Corporate Controller |
| Marc Benioff | 54 | Chairman of the Board and co-CEO |
| Keith Block | 57 | Co-CEO |
| Alexandre Dayon | 51 | President and Chief Strategy Officer |
| Parker Harris | 52 | Co-Founder and Chief Technology Officer |
| Mark Hawkins | 59 | President and Chief Financial Officer |
| Cindy Robbins | 46 | President and Chief People Officer |
| Srinivas Tallapragada | 49 | President, Technology |
| Bret Taylor | 38 | President and Chief Product Officer |
| Amy Weaver | 51 | President, Legal & Corporate Affairs and General Counsel |

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

Marc Benioff is Chairman, co-CEO and Co-Founder of Salesforce and a pioneer of cloud computing. Under Mr. Benioff's leadership, Salesforce is the fastest-growing top-five enterprise software company and the #1 provider of CRM software globally. Mr. Benioff was named "Innovator of the Decade" by Forbes and is recognized as one of the World's 25 Greatest Leaders by Fortune and one of the 10 Best-Performing CEOs by Harvard Business Review. A member of the World Economic Forum Board of Trustees, Mr. Benioff serves as the inaugural chair of WEF's Forum Center for the Fourth Industrial Revolution in San Francisco. Mr. Benioff also serves as chair of Salesforce.org. Mr. Benioff served as a director of Cisco Systems, Inc. from 2012 to 2014. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is on its Board of Trustees.

Keith Block is co-CEO of Salesforce and has served as a Director since June 2013. Prior to his appointment as Co-CEO in August 2018, he served as Vice Chairman, President since joining Salesforce in June 2013, and additionally served as our Chief Operating Officer from February 2016 to August 2018. Mr. Block was employed at Oracle Corporation from 1986 to June 2012, where he held a number of positions, including Executive Vice President, North America. Mr. Block currently serves on the World Economic Forum's Information Technology Community as a Governor, the Board of Trustees for Carnegie-Mellon University, the President's Advisory Council at Carnegie-Mellon University Heinz Graduate School and the Board of Trustees at the Concord Museum. Mr. Block received both a B.S. in Information Systems and an M.S. in Management & Policy Analysis from Carnegie-Mellon University.

Alexandre Dayon has served as our President and Chief Strategy Officer since November 2017. Prior to that, he served as our President and Chief Product Officer since February 2016, President, Products from March 2014 to February 2016, President, Applications and Platform from December 2012 to March 2014, Executive Vice President, Applications from September 2011 to December 2012, Executive Vice President, Product Management from February 2010 to December 2012, and Senior Vice President, Product Management from September 2008 to January 2010. Mr. Dayon joined Salesforce through the acquisition of InStranet, a leading knowledge-base company, where he was a founder and served as CEO. Prior to InStranet, Mr. Dayon was a founding member of Business Objects SA where he led the product group for more than 10 years. Mr. Dayon, who holds several patents, is focused on creating business value out of technology disruption. Mr. Dayon holds a master's degree in electrical engineering from Ecole Supérieure d'Electricité (SUPELEC) in France.

Parker Harris has served as a Director since August 2018 and as our Co-Founder and Chief Technology Officer since September 2016. Mr. Harris co-founded Salesforce in February 1999 and has served in senior technical positions since inception. From December 2004 to February 2013, Mr. Harris served as our Executive Vice President, Technology. Prior to Salesforce, Mr. Harris was a Vice President at Left Coast Software, a Java consulting firm he co-founded, from October 1996 to February 1999. Mr. Harris received a B.A. from Middlebury College.

Mark Hawkins has served as our President and Chief Financial Officer and Principal Financial Officer since August 2017. Prior to that, he served as our Chief Financial Officer, Principal Financial Officer and Executive Vice President since August 2014. Prior to Salesforce, Mr. Hawkins served as Executive Vice President and Chief Financial Officer and principal financial officer for Autodesk, Inc., a design software and services company, from April 2009 to July 2014. From April 2006 to April 2009, Mr. Hawkins served as Senior Vice President, Finance and Information Technology, and Chief Financial Officer of Logitech International S.A. Previously, Mr. Hawkins held various finance and business-management roles with Dell Inc. and Hewlett-Packard Company. Mr. Hawkins currently serves as a director of Plex Systems, Inc., where he is the Chairman of the Audit Committee, and SecureWorks, Inc., where he is also a member of the Compensation Committee and the Chairman of the Audit Committee. Mr. Hawkins holds a B.A. in Operations Management from Michigan State University and an M.B.A. in Finance from the University of Colorado. He also completed the Advanced Management Program at Harvard Business School.

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

Srini Tallapragada has served as our President, Technology since June 2018. Prior to that, he served as Executive Vice President, Engineering since March 2014 and Senior Vice President, Engineering from May 2012 to February 2014. From April 2011 to June 2012, Mr. Tallapragada served as a Senior Vice President at Oracle. From February 2009 to April 2011 Mr. Tallapragada served as a Senior Vice President at SAP. Previously, Mr. Tallapragada held various roles at Oracle, Infosys and Asian Paints. Mr. Tallapragada holds a masters degree from the School of Human Resources at XLRI, Jamshedpur and a B.T. in Computer Science from the National Institute of Technology, Warangal.

Bret Taylor has served as our President and Chief Product Officer since November 2017. Prior to that, he served as our President, Quip since August 2016. Mr. Taylor joined Salesforce through the acquisition of Quip, Inc., where he was a co-founder and served as CEO since September 2012. Previously, Mr. Taylor served as Chief Technology Officer of Facebook, Inc. from August 2009 to July 2012 and Chief Executive Officer of FriendFeed, Inc., a social network, from October 2007 to August 2009. From June 2007 to September 2007, Mr. Taylor served as an entrepreneur-in-residence at Benchmark, a venture

capital firm. Prior to June 2007, Mr. Taylor served as Group Product Manager at Google Inc. Mr. Taylor currently serves as a director of Twitter, Inc., where he is also a member of the Compensation Committee. He has also served on the Board of Directors of Axon Enterprise, Inc. (formerly known as TASER International, Inc.), a protection technologies company, since June 2014. Mr. Taylor holds a B.S. and an M.S. in Computer Science from Stanford University.

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

PART II.

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

Market Information for Common Stock

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

Dividend Policy

We have never paid any cash dividends on our common stock. Our board of directors currently intends to retain any future earnings to support operations and to finance the growth and development of our business and does not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board.

Stockholders

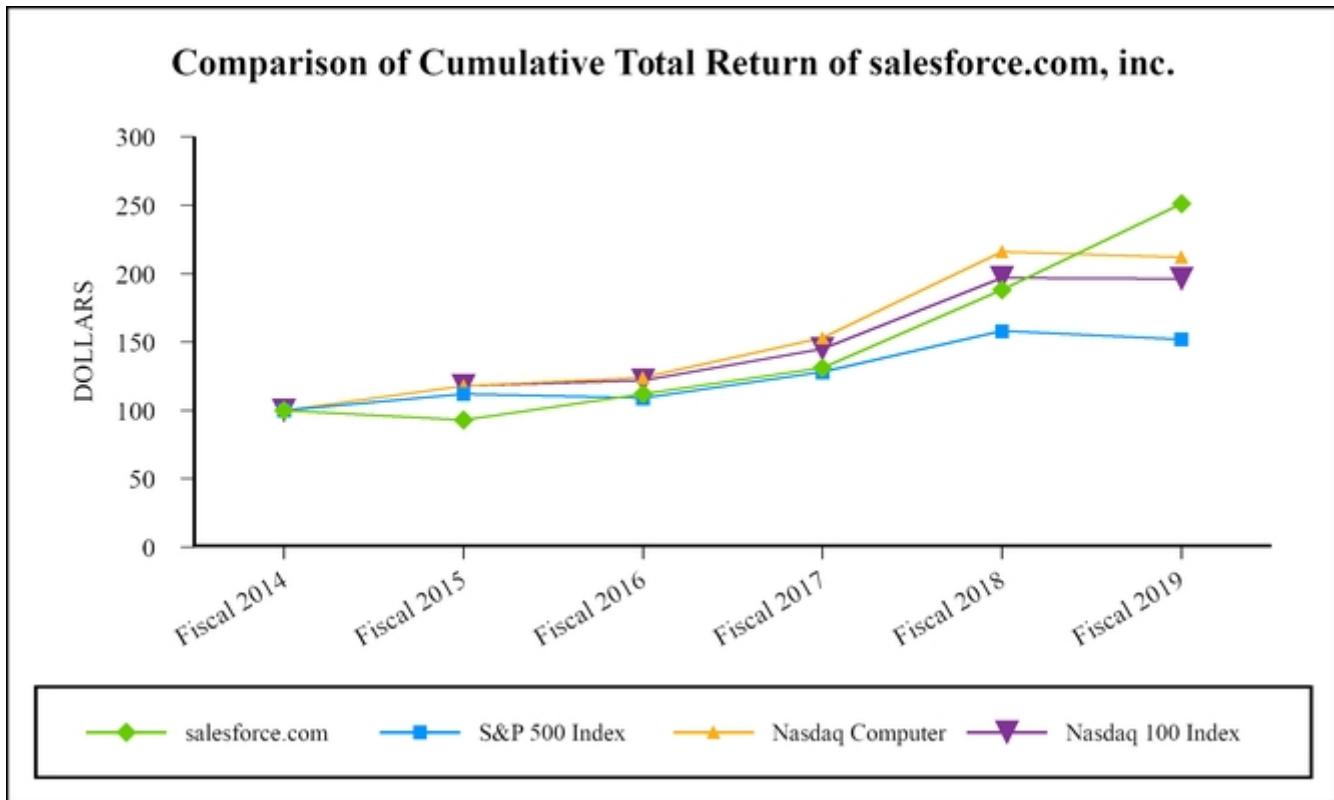
As of January 31, 2019, there were 548 registered stockholders of record of our common stock, including The Depository Trust Company, which holds shares of Salesforce common stock on behalf of an indeterminate number of beneficial owners.

Stock Performance Graph

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

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor's 500 Index ("S&P 500 Index"), Nasdaq Computer & Data Processing Index ("Nasdaq Computer") and the Nasdaq 100 Index for each of the last five fiscal years ended January 31, 2019, assuming an initial investment of \$100. Data for the S&P 500 Index, Nasdaq Computer and Nasdaq 100 Index assume reinvestment of dividends.

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



| | 1/31/2014 | 1/31/2015 | 1/31/2016 | 1/31/2017 | 1/31/2018 | 1/31/2019 |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| salesforce.com | \$ 100.00 | \$ 93.00 | \$ 112.00 | \$ 131.00 | \$ 188.00 | \$ 251.00 |
| S&P 500 Index | 100.00 | 112.00 | 109.00 | 128.00 | 158.00 | 152.00 |
| Nasdaq Computer | 100.00 | 118.00 | 124.00 | 153.00 | 216.00 | 212.00 |
| Nasdaq 100 Index | 100.00 | 118.00 | 122.00 | 145.00 | 197.00 | 196.00 |

Recent Sales of Unregistered Securities

In connection with the acquisition of MetaMind, Inc. in April 2016, the Company issued 13,369 shares of Company common stock on January 2, 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.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for fiscal 2019, 2018 and 2017, and the selected consolidated balance sheet data as of January 31, 2019 and 2018 are derived from, and are qualified by reference to, the audited consolidated financial statements that are included in this Form 10-K. The consolidated statement of operations data for fiscal 2016 and 2015 and the consolidated balance sheet data as of January 31, 2017, 2016 and 2015 are derived from audited consolidated financial statements which are not included in this Form 10-K after certain reclassifications were made to conform to the current period presentation described in Note 1 "Summary of Business and Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

The consolidated statement of operations data for fiscal 2019, 2018 and 2017, and the selected consolidated balance sheet data as of January 31, 2019, 2018 and 2017 reflect the retrospective adoption of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers ("Topic 606")". Additionally, the consolidated statement of operations data for fiscal 2019 and the selected consolidated balance sheet data as of January 31, 2019 reflect the prospective adoption of ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10)" ("ASU 2016-01").

| (in millions, except per share data) | Fiscal Year Ended January 31, | | | | |
|---|-------------------------------|--------------------|--------------------|-----------|-----------|
| | 2019 | 2018 (as adjusted) | 2017 (as adjusted) | 2016 | 2015 |
| Consolidated Statement of Operations | | | | | |
| Revenues: | | | | | |
| Subscription and support | \$ 12,413 | \$ 9,766 | \$ 7,799 | \$ 6,205 | \$ 5,014 |
| Professional services and other | 869 | 774 | 638 | 462 | 360 |
| Total revenues | 13,282 | 10,540 | 8,437 | 6,667 | 5,374 |
| Cost of revenues (1)(2): | | | | | |
| Subscription and support | 2,604 | 2,033 | 1,617 | 1,241 | 965 |
| Professional services and other | 847 | 740 | 617 | 413 | 325 |
| Total cost of revenues | 3,451 | 2,773 | 2,234 | 1,654 | 1,290 |
| Gross profit | 9,831 | 7,767 | 6,203 | 5,013 | 4,084 |
| Operating expenses (1)(2): | | | | | |
| Research and development | 1,886 | 1,553 | 1,208 | 946 | 793 |
| Marketing and sales | 6,064 | 4,671 | 3,811 | 3,240 | 2,757 |
| General and administrative | 1,346 | 1,089 | 966 | 748 | 680 |
| Operating lease termination resulting from purchase of 50 Fremont | 0 | 0 | 0 | (36) | 0 |
| Total operating expenses | 9,296 | 7,313 | 5,985 | 4,898 | 4,230 |
| Income (loss) from operations | 535 | 454 | 218 | 115 | (146) |
| Investment income | 57 | 36 | 27 | 15 | 10 |
| Interest expense | (154) | (87) | (89) | (73) | (73) |
| Gains (losses) on strategic investments, net (3) | 542 | 19 | 31 | (16) | (10) |
| Other income (expense) (3) | 3 | (2) | (8) | 1 | (10) |
| Gain on sales of land and building improvements | 0 | 0 | 0 | 22 | 16 |
| Income (loss) before benefit from (provision for) income taxes | 983 | 420 | 179 | 64 | (213) |
| Benefit from (provision for) income taxes (4) | 127 | (60) | 144 | (111) | (50) |
| Net income (loss) | \$ 1,110 | \$ 360 | \$ 323 | \$ (47) | \$ (263) |
| Net income (loss) per share-basic and diluted: | | | | | |
| Basic net income (loss) per share | \$ 1.48 | \$ 0.50 | \$ 0.47 | \$ (0.07) | \$ (0.42) |
| Diluted net income (loss) per share | \$ 1.43 | \$ 0.49 | \$ 0.46 | \$ (0.07) | \$ (0.42) |
| Shares used in computing basic net income (loss) per share | 751 | 715 | 688 | 662 | 624 |
| Shares used in computing diluted net income (loss) per share | 775 | 735 | 700 | 662 | 624 |
| | | | | | |
| (in millions) | Fiscal Year Ended January 31, | | | | |
| | 2019 | 2018 | 2017 | 2016 | 2015 |
| (1) Amounts include amortization of purchased intangibles from business combinations, as follows: | | | | | |
| Cost of revenues | \$ 215 | \$ 166 | \$ 128 | \$ 81 | \$ 90 |
| Marketing and sales | 232 | 121 | 98 | 77 | 65 |
| (2) Amounts include stock-based expenses, as follows: | | | | | |
| Cost of revenues | \$ 161 | \$ 130 | \$ 107 | \$ 70 | \$ 54 |
| Research and development | 307 | 260 | 188 | 129 | 121 |
| Marketing and sales | 643 | 469 | 389 | 289 | 287 |
| General and administrative | 172 | 138 | 136 | 106 | 103 |

- (3) Certain reclassifications to fiscal 2018, 2017, 2016 and 2015 balances were made to conform to the current period presentation in the consolidated statement of operations. Specifically, other income (expense) has been separated into other income (expense) and gains (losses) on strategic investments, net.
- (4) Amounts include a benefit related to the partial release of the valuation allowance of \$612 million, \$2 million, \$226 million, \$1 million, and \$0 million for fiscal 2019, 2018, 2017, 2016, and 2015, respectively.

| (in millions) | As of January 31, | | | | |
|---|-------------------|--------------------|--------------------|----------|----------|
| | 2019 | 2018 (as adjusted) | 2017 (as adjusted) | 2016 | 2015 |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents and marketable securities (5) | \$ 4,342 | \$ 4,521 | \$ 2,209 | \$ 2,725 | \$ 1,890 |
| (Negative) working capital (6) | (572) | (483) | (1,013) | 90 | (15) |
| Total assets | 30,737 | 21,984 | 18,286 | 12,763 | 10,654 |
| Noncurrent debt and other noncurrent liabilities | 3,877 | 1,541 | 2,824 | 2,119 | 2,254 |
| Retained earnings (accumulated deficit) | 1,735 | 635 | 275 | (653) | (606) |
| Total stockholders' equity | 15,605 | 10,376 | 8,230 | 5,003 | 3,975 |

- (5) Excludes the restricted cash balance of \$115 million as of January 31, 2015.
- (6) The Company considers all of its marketable debt securities to be available to support current liquidity needs including those with maturity dates beyond one year, and therefore classifies these securities within current assets on the consolidated balance sheets. For consistency in presentation, working capital in the table above as of January 31, 2016 and 2015 includes amounts previously reported in Marketable securities, noncurrent. In addition, other reclassifications were made to balances as of January 31, 2018, 2017, 2016 and 2015 to conform to the current period presentation.

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

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

Overview

We are a 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") and artificial intelligence ("AI") technologies.

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

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

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

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

To address these factors, we will need to, among other things, continue to add substantial numbers of paying subscriptions, upgrade our customers to fully featured versions or arrangements such as an Enterprise License Agreement, provide high quality technical support to our customers, encourage the development of third-party applications on our platforms, realize the benefits from our strategic partnerships and continue to focus on retaining customers at the time of renewal. Our plans to invest for future growth include the continuation of the expansion of our data center capacity, whether internally or through the use of third parties, the hiring of additional personnel, particularly in direct sales, other customer-related areas and research and development, the expansion of domestic and international selling and marketing activities,

specifically in our top markets, the continued development of our brands, the addition of distribution channels, the upgrade of our service offerings, the continued development of services including Community Cloud and Industry Clouds, the integration of new and acquired technologies such as Commerce Cloud, artificial intelligence technologies and Salesforce Quip, the expansion of our Marketing Cloud, Salesforce Platform core service offerings, Integration Cloud through our May 2018 MuleSoft, Inc. ("MuleSoft") acquisition and the additions to our global infrastructure to support our growth.

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

Our typical subscription contract term is 12 to 36 months, although terms range from one to 60 months, so during any fiscal reporting period only a subset of active subscription contracts is eligible for renewal. We calculate our attrition rate as of the end of each month. Our attrition rate, including the Marketing Cloud service offering but excluding our Commerce Cloud service offering and integration service offering, was less than ten percent as of January 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 expect marketing and sales costs, which were 46 percent, 44 percent and 45 percent of total revenues for fiscal 2019, 2018 and 2017, respectively, to continue to represent a substantial portion of total revenues in the future as we seek to grow our customer base, sell more products to existing customers, and continue to build greater brand awareness.

During the year, we acquired MuleSoft, an industry-leading integration platform, to provide our customers the ability to integrate data across platforms. The financial results of MuleSoft are included in our consolidated financial statements from the date of acquisition. The total purchase price for MuleSoft was approximately \$6.4 billion.

Also in fiscal 2019, we acquired Datorama, which provides a platform for enterprises, agencies and publishers to integrate data across marketing channels and data sources. The financial results of Datorama are included in our consolidated financial statements from the date of acquisition. The total purchase price for Datorama was approximately \$766 million.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2019, for example, refer to the fiscal year ending January 31, 2019.

Adoption of New Accounting Standards

We have adjusted our consolidated financial statements from amounts previously reported due to the adoption of Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers ("Topic 606")", which relates to revenue recognition and the capitalization of costs to acquire a revenue contract. The information presented reflects the adjusted amounts as compared to those previously reported. In addition, we have prospectively adopted Accounting Standards Update No. 2016-01, "Financial Instrument-Overall (Subtopic 825-10)" ("ASU 2016-01") and Accounting Standards Update No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). See Note 1, "Summary of Business and Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Operating Segments

We operate as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by our chief operating decision makers, Marc Benioff, who is the co-chief executive officer and the chairman of the board, and Keith Block, who is the co-chief executive officer, in deciding how to allocate resources and assess performance. Over the past few years, we have completed a number of acquisitions, including the acquisitions of MuleSoft and Datorama in fiscal 2019. These acquisitions have allowed us to expand our offerings, presence and reach in various market segments of the enterprise cloud computing market. While we have offerings in multiple enterprise cloud computing market segments, including as a result of our acquisitions, our business operates in one operating segment because most of our offerings operate on a single customer success platform and are deployed in an identical way, and our chief operating decision makers evaluate our financial information and resources and assess the performance of these resources on a

consolidated basis. Since we operate as one operating segment, all required financial segment information can be found in the consolidated financial statements.

In August 2018, we moved to a co-chief executive officer model with the promotion of our vice chairman and chief operating officer, Keith Block. We determined that both co-chief executive officers also serve as chief operating decision makers for the purposes of segment reporting. Despite the change in the chief operating decision maker, we determined no change to segment reporting was necessary as there was no change in the components for which separate financial information is regularly evaluated.

Sources of Revenues

We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing services (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, implementation services and other revenue. "Other revenue" consists primarily of training fees. Subscription and support revenues accounted for approximately 93 percent of our total revenues for fiscal 2019. Subscription revenues are driven primarily by the number of paying subscribers, varying service types, and the price of our service and renewals. We define a "customer" as a separate and distinct buying entity (e.g., a company, a distinct business unit of a large corporation, a partnership, etc.) that has entered into a contract to access our enterprise cloud computing services.

Subscription and support revenues for Cloud Services are recognized ratably over the contract terms beginning on the commencement dates of each contract. Subscription revenues for software licenses are generally recognized upfront when the software is made available to the customer. The typical subscription and support term is 12 to 36 months, although terms range from one to 60 months. Our subscription and support contracts are non-cancelable, though customers typically have the right to terminate their contracts for cause if we materially fail to perform.

We generally invoice our customers in advance, in annual installments, and typical payment terms provide that our customers pay us within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in 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.

Professional services and other revenues consist of fees associated with consulting and implementation services and training. Our consulting and implementation engagements are billed on a time and materials, fixed fee or subscription basis. We also offer a number of training classes on implementing, using and administering our service that are billed on a per person, per class basis. Our typical professional services payment terms provide that our customers pay us within 30 days of invoice.

In determining whether professional services can be accounted for separately from subscription and support revenues, we consider a number of factors, which are described in Note 1 "Summary of Business and Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Revenue by Cloud Service Offering

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

| | Fiscal Year Ended January 31, | | | Variance - Percent Fiscal 2018 and 2019 | Variance - Percent Fiscal 2017 and 2018 |
|-------------------------------|-------------------------------|-----------------|-----------------|--|--|
| | 2019 | 2018 | 2017 | | |
| Sales Cloud | \$ 4,040 | \$ 3,588 | \$ 3,076 | 13% | 17% |
| Service Cloud | 3,621 | 2,883 | 2,343 | 26% | 23% |
| Salesforce Platform and Other | 2,854 | 1,913 | 1,433 | 49% | 33% |
| Marketing and Commerce Cloud | 1,898 | 1,382 | 947 | 37% | 46% |
| Total | \$ 12,413 | \$ 9,766 | \$ 7,799 | | |

Subscription and support revenues from the Community Cloud, Quip and our Industry Offerings were not significant in fiscal 2019. 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. Revenue from our acquisition of MuleSoft in May 2018 is included in Salesforce Platform and Other.

As required under U.S. GAAP, we recorded unearned revenue related to acquired contracts from MuleSoft at fair value on the date of acquisition. As a result, we did not recognize certain revenues related to these acquired contracts that MuleSoft would have otherwise recorded as an independent entity. Of the \$2.9 billion subscription and support revenue for Salesforce Platform and Other for fiscal 2019, approximately \$360 million was attributed to MuleSoft.

In situations where a customer purchases multiple cloud offerings, such as through an Enterprise License Agreement, we allocate the contract value to each core service offering based on the customer's estimated product demand plan, the service that was provided at the inception of the contract, and standalone selling price ("SSP") of those products. We do not update these allocations based on actual product usage during the term of the contract. We have allocated approximately 17 percent, 15 percent, 13 percent of our total subscription and support revenues for fiscal 2019, 2018 and 2017, respectively, based on customers' estimated product demand plans and these allocated amounts are included in the table above.

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

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

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

Seasonal Nature of 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 annual cycles. 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. 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.

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):

| | 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 |
| Operating cash flow | 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 |
| Operating cash flow | 1,052 | 125 | 331 | 1,230 |

The unearned revenue balance on our 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 obligations ("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 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. 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 obligations attributable to a particular subscription agreement are 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, formerly referred to as remaining transaction price, consisted of the following (in billions):

| | Current | Noncurrent | Total |
|------------------------|---------|------------|----------|
| 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 |

*Includes \$500 million of remaining performance obligation related to fiscal 2019 acquisitions, including contracts executed subsequent to acquisition.

Cost of Revenues and Operating Expenses

Cost of Revenues

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

We intend to continue to invest additional resources in our enterprise cloud computing services. For example, we have invested in additional database software and hardware and we plan to increase the capacity that we are able to offer globally through data centers and third-party infrastructure providers. In addition, we intend to continue to invest additional resources in enhancing our 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. As a result, we do not have to maintain multiple versions, which enables us to have relatively lower research and development expenses as compared to traditional enterprise software companies.

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

Marketing and Sales

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

We plan to continue to invest in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness, attracting new customers, and sponsoring additional marketing events. The timing of these marketing events, such as our annual and largest event, Dreamforce, will affect our marketing costs in a particular quarter. In addition, as we acquire new businesses and technologies, a component of the amortization expense associated with this activity will be included in marketing and sales. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost. We expect marketing and sales expenses, excluding sales personnel expenses, to grow in line with or at a slower rate than revenues and sales personnel expenses. 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 as our stock price increases, as we acquire more companies, 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 consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in Note 1 "Summary of Business and Significant Accounting Policies" to our consolidated financial statements, the following accounting policies and specific estimates involve a greater degree of judgment and complexity.

Revenue Recognition - Contracts with Multiple Performance Obligations. We enter into contracts with our 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 as such offerings are often sold separately. In determining whether professional services are distinct, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription start date and the contractual dependence of the service on the customer's satisfaction with the professional services work. To date, we have concluded that all of the professional services included in contracts with multiple performance obligations are distinct.

We allocate the transaction price to each performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which we would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation. We determine SSP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where services are sold, price lists, our go-to-market strategy, historical sales and contract prices. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to SSP.

In certain cases, we are able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. We use a single amount to estimate SSP when it has observable prices. If SSP is not directly observable, for example when pricing is highly variable, we use a range of SSP. We determine the SSP range using information that may include market conditions or other observable inputs. We typically have 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. 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. Significant judgment is required in arriving at this average period of benefit. Therefore, we evaluate both qualitative and quantitative factors which include the estimated life cycles of our offerings and our customer attrition.

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

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

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

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

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

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

Strategic Investments. Accounting for strategic investments in privately held debt and equity securities in which we do not have a controlling interest or significant influence requires us to make significant estimates and assumptions. Privately held

equity securities without a readily determinable fair value are recorded at cost and adjusted for observable price changes in a same or similar security from the same issuer and impairments.

Privately held debt and equity securities are valued using significant unobservable inputs or data in an inactive market and the valuation requires our judgment due to the absence of market prices and inherent lack of liquidity. The carrying value is adjusted for our privately held equity securities if there are observable price changes in a same or similar security from the same issuer or if there are identified events or changes in circumstances that may indicate impairment, as discussed below. The determination of whether an orderly transaction is for a same or similar investment requires significant management judgment including the nature of rights and obligations of the investments, the extent to which differences in those rights and obligations would affect the fair values of those investments, and the impact of any differences based on the stage of operational development of the investee.

We assess our privately held debt and equity securities strategic investment portfolio quarterly for impairment. Our impairment analysis encompasses an assessment of the severity and duration of the impairment and qualitative and quantitative analysis of other key factors including the investee's financial metrics, the investee's products and technologies meeting or exceeding predefined milestones, market acceptance of the product or technology, other competitive products or technology in the market, general market conditions, management and governance structure of the investee, the investee's liquidity, debt ratios and the rate at which the investee is using its cash. If the investment is considered to be impaired, we record the investment at fair value by recognizing an impairment through the consolidated statement of operations and establishing a new carrying value for the investment.

Results of Operations

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

| | Fiscal Year Ended January 31, | | | | | |
|---|-------------------------------|--------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | 2019 | As a % of Total Revenues | 2018 (as adjusted)* | As a % of Total Revenues | 2017 (as adjusted)* | As a % of Total Revenues |
| Revenues: | | | | | | |
| Subscription and support | \$ 12,413 | 93 % | \$ 9,766 | 93 % | \$ 7,799 | 92 % |
| Professional services and other | 869 | 7 | 774 | 7 | 638 | 8 |
| Total revenues | 13,282 | 100 | 10,540 | 100 | 8,437 | 100 |
| Cost of revenues (1)(2): | | | | | | |
| Subscription and support | 2,604 | 20 | 2,033 | 19 | 1,617 | 19 |
| Professional services and other | 847 | 6 | 740 | 7 | 617 | 7 |
| Total cost of revenues | 3,451 | 26 | 2,773 | 26 | 2,234 | 26 |
| Gross profit | 9,831 | 74 | 7,767 | 74 | 6,203 | 74 |
| Operating expenses (1)(2): | | | | | | |
| Research and development | 1,886 | 14 | 1,553 | 15 | 1,208 | 14 |
| Marketing and sales | 6,064 | 46 | 4,671 | 44 | 3,811 | 45 |
| General and administrative | 1,346 | 10 | 1,089 | 10 | 966 | 12 |
| Total operating expenses | 9,296 | 70 | 7,313 | 69 | 5,985 | 71 |
| Income from operations | 535 | 4 | 454 | 5 | 218 | 3 |
| Investment income | 57 | 0 | 36 | 0 | 27 | 0 |
| Interest expense | (154) | (1) | (87) | (1) | (89) | (1) |
| Gains on strategic investments, net | 542 | 4 | 19 | 0 | 31 | 0 |
| Other income (expense) | 3 | 0 | (2) | 0 | (8) | 0 |
| Income before benefit from (provision for) income taxes | 983 | 7 | 420 | 4 | 179 | 2 |
| Benefit from (provision for) income taxes (3) | 127 | 1 | (60) | (1) | 144 | 2 |
| Net income | \$ 1,110 | 8 % | \$ 360 | 3 % | \$ 323 | 4 % |

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

| | Fiscal Year Ended January 31, | | | | | |
|---------------------|-------------------------------|--------------------------|--------|--------------------------|--------|--------------------------|
| | 2019 | As a % of Total Revenues | 2018 | As a % of Total Revenues | 2017 | As a % of Total Revenues |
| Cost of revenues | \$ 215 | 2% | \$ 166 | 2% | \$ 128 | 2% |
| Marketing and sales | 232 | 2 | 121 | 1 | 98 | 1 |

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

| | Fiscal Year Ended January 31, | | | | | |
|----------------------------|-------------------------------|--------------------------|--------|--------------------------|--------|--------------------------|
| | 2019 | As a % of Total Revenues | 2018 | As a % of Total Revenues | 2017 | As a % of Total Revenues |
| Cost of revenues | \$ 161 | 1% | \$ 130 | 1% | \$ 107 | 1% |
| Research and development | 307 | 2 | 260 | 2 | 188 | 2 |
| Marketing and sales | 643 | 5 | 469 | 5 | 389 | 5 |
| General and administrative | 172 | 1 | 138 | 1 | 136 | 2 |

(3) Amount includes a benefit related to the partial release of the valuation allowance of \$612 million, \$2 million and \$226 million for fiscal 2019, 2018 and 2017, respectively. The fiscal 2019 benefit was partially offset by an increase in unrecognized tax benefits.

*Prior period information has been adjusted for the adoption of Topic 606.

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The following table sets forth selected balance sheet and other metrics data for each of the periods indicated (in millions, other than remaining performance obligation, which is presented in billions):

| | As of January 31, | |
|---|-------------------|----------|
| | 2019 | 2018 |
| Cash, cash equivalents and marketable securities | \$ 4,342 | \$ 4,521 |
| Unearned revenue | 8,564 | 6,995 |
| Remaining performance obligation | 25.7 | 20.6 |
| Principal due on our outstanding debt obligations | 3,198 | 1,727 |

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.

Fiscal Year Ended January 31, 2019 and 2018

Revenues.

| (in millions) | Fiscal Year Ended January 31, | | Variance | |
|---------------------------------|-------------------------------|-----------|----------|---------|
| | 2019 | 2018 | Dollars | Percent |
| Subscription and support | \$ 12,413 | \$ 9,766 | \$ 2,647 | 27% |
| Professional services and other | 869 | 774 | 95 | 12 |
| Total revenues | \$ 13,282 | \$ 10,540 | \$ 2,742 | 26 |

The increase in subscription and support revenues was primarily caused by volume-driven increases from new business, which includes new customers, upgrades and additional subscriptions from existing customers. Our acquisition of MuleSoft in May 2018 contributed \$431 million to total revenues in fiscal 2019. The increase was also driven by approximately \$227 million of revenue recognized at a point in time, which includes the portion of software subscriptions allocated to the on-premise software element.

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.

Revenues by geography were as follows:

| (in millions) | Fiscal Year Ended January 31, | | | |
|---------------|-------------------------------|--------------------------|-----------|--------------------------|
| | 2019 | As a % of Total Revenues | 2018 | As a % of Total Revenues |
| Americas | \$ 9,445 | 71% | \$ 7,621 | 72% |
| Europe | 2,553 | 19 | 1,916 | 18 |
| Asia Pacific | 1,284 | 10 | 1,003 | 10 |
| | \$ 13,282 | 100% | \$ 10,540 | 100% |
| | | | | 26 |

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 fiscal year 2019 and 2018.

Revenues in Europe and Asia Pacific accounted for \$3.8 billion, or 29 percent of total revenues, for fiscal 2019, compared to \$2.9 billion, or 28 percent of total revenues, during the same period a year ago, an increase of \$0.9 billion, or 31 percent. The increase in revenues outside of the Americas was the result of the increasing acceptance of our services, our focus on marketing our services internationally and investment in additional international resources. Revenues outside of the Americas increased on a total dollar basis by \$39 million in fiscal 2019 compared to fiscal 2018 due to foreign currency fluctuations primarily as a result of the strengthening British Pound Sterling.

Cost of Revenues.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|---------------------------------|-------------------------------|----------|---------------------|
| | 2019 | 2018 | |
| Subscription and support | \$ 2,604 | \$ 2,033 | \$ 571 |
| Professional services and other | 847 | 740 | 107 |
| Total cost of revenues | \$ 3,451 | \$ 2,773 | \$ 678 |
| Percent of total revenues | 26% | 26% | |

The increase in cost of revenues was primarily due to an increase of \$156 million in employee-related costs, an increase of \$31 million in stock-based expenses, an increase of \$326 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$49 million and an increase of \$26 million in allocated overhead. We have increased our headcount by 16 percent since January 31, 2018 to meet the higher demand for services from our customers, of which a component was also due to the acquisition of MuleSoft in May 2018. 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.

The cost of professional services and other revenues was \$847 million during fiscal 2019 resulting in positive gross margin of \$22 million. The cost of professional services and other revenues was \$740 million during fiscal 2018 resulting in positive gross margins of \$34 million. We expect the cost of professional services to be approximately in line with revenues from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Operating Expenses.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|----------------------------|-------------------------------|----------|---------------------|
| | 2019 | 2018 | |
| Research and development | \$ 1,886 | \$ 1,553 | \$ 333 |
| Marketing and sales | 6,064 | 4,671 | 1,393 |
| General and administrative | 1,346 | 1,089 | 257 |
| Total operating expenses | \$ 9,296 | \$ 7,313 | \$ 1,983 |
| Percent of total revenues | 70% | 69% | |

The increase in research and development expenses was primarily due to an increase of approximately \$216 million in employee-related costs, an increase of \$47 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 19 percent since January 31, 2018 in order to improve and extend our service offerings, develop new technologies, and integrate acquired companies, including our acquisition of MuleSoft in May 2018. Additionally, a component of our increased headcount was also due to the acquisition of MuleSoft. 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.

The increase in marketing and sales expenses was primarily due to an increase of \$797 million in employee-related costs and amortization of deferred commissions, an increase of \$174 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$111 million, and allocated overhead. Our marketing and sales headcount increased by 25 percent since January 31, 2018, of which a component was due to the acquisition of MuleSoft in May 2018. The increase in headcount was primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. 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.

The increase in general and administrative expenses was primarily due to an increase in employee-related costs. Our general and administrative headcount increased by 27 percent since January 31, 2018 as we added personnel to support our growth as well as an increase due to the acquisition of MuleSoft in May 2018.

Other income and expense.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|-------------------------------------|-------------------------------|-------|------------------|
| | 2019 | 2018 | |
| Investment income | \$ 57 | \$ 36 | \$ 21 |
| Interest expense | (154) | (87) | (67) |
| Gains on strategic investments, net | 542 | 19 | 523 |
| Other income (expense) | 3 | (2) | 5 |

The increase in investment income was due to higher interest income across our portfolio, which is primarily a result of increasing interest rates.

Interest expense consists of interest on our debt, capital leases, and financing obligation related to 350 Mission. The increase in interest expense was primarily driven by interest expense on the 2023 Senior Notes and 2028 Senior Notes of approximately \$71 million. We expect interest expense to increase in future years as the 2023 Senior Notes and 2028 Senior Notes will be outstanding for a full year as compared to a partial year in fiscal 2019.

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. The prospective adoption of ASU 2016-01 resulted in unrealized gains in our equity securities of approximately \$446 million during fiscal 2019, excluding gains on sales of equity securities. These gains were primarily driven by mark-to-market adjustments to our publicly traded securities of \$345 million during fiscal 2019.

Other income (expense) primarily consists of non-operating transactions such as gains and losses from foreign exchange rate fluctuations and real estate transactions.

Benefit from (provision for) income taxes.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|---|-------------------------------|---------|------------------|
| | 2019 | 2018 | |
| Benefit from (provision for) income taxes | \$ 127 | \$ (60) | \$ 187 |
| Effective tax rate | (13)% | 14% | |

We recorded a tax benefit of \$127 million on a pretax income of \$983 million for fiscal 2019. The tax benefit recorded was primarily related to the release of our valuation allowance related to federal and state deferred tax assets, which was partially offset with the increase in unrecognized tax benefits. In addition, we recorded current tax expense for profitable jurisdictions outside of the United States.

In fiscal 2018, we recorded a tax provision of \$60 million on a pretax income of \$420 million. The tax provision recorded was primarily related to income taxes in profitable jurisdictions outside of the United States.

Fiscal Years Ended January 31, 2018 and 2017

Revenues.

| (in millions) | Fiscal Year Ended January 31, | | Variance | |
|---------------------------------|-------------------------------|----------|----------|---------|
| | 2018 | 2017 | Dollars | Percent |
| Subscription and support | \$ 9,766 | \$ 7,799 | \$ 1,967 | 25% |
| Professional services and other | 774 | 638 | 136 | 21 |
| Total revenues | \$ 10,540 | \$ 8,437 | \$ 2,103 | 25 |

The increase in subscription and support revenues during fiscal 2018 was primarily caused by volume-driven increases from new business, which included new customers, upgrades and additional subscriptions from existing customers. Additionally, fiscal 2018 benefited from a full year of revenue from Demandware, which we acquired in July 2016. This was offset by a reduction in subscription revenues of approximately \$20 million as a result of one less day in fiscal 2018 compared to fiscal 2017. We continue to invest in a variety of customer programs and initiatives which, along with increasing enterprise adoption, have helped keep our attrition rate consistent as compared to the prior year. Consistent attrition rates play a role in our ability to maintain growth in our subscription and support revenues. Changes in the net price per user per month have not been a significant driver of revenue growth for the periods presented. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of customers.

Revenues by geography were as follows (in millions):

| | Fiscal Year Ended January 31, | | | | |
|--------------|-------------------------------|--------------------------|-----------------|--------------------------|-------------|
| | 2018 | As a % of Total Revenues | 2017 | As a % of Total Revenues | Growth rate |
| Americas | \$ 7,621 | 72% | \$ 6,259 | 74% | 22% |
| Europe | 1,916 | 18 | 1,383 | 16% | 39 |
| Asia Pacific | 1,003 | 10 | 795 | 10% | 26 |
| | <u>\$ 10,540</u> | <u>100%</u> | <u>\$ 8,437</u> | <u>100%</u> | <u>25</u> |

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

Revenues in Europe and Asia Pacific accounted for \$2.9 billion, or 28 percent of total revenues, for fiscal 2018, compared to \$2.2 billion, or 26 percent of total revenues, during fiscal 2017, an increase of \$0.7 billion, or 34 percent. The increase in revenues outside of the Americas was the result of the increasing acceptance of our services, our focus on marketing our services internationally and investment in additional international resources. Revenues outside of the Americas increased on a total dollar basis by \$96 million in fiscal 2018 compared to fiscal 2017 due to foreign currency fluctuations primarily as a result of the strengthening British Pound Sterling.

Cost of Revenues.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|---------------------------------|-------------------------------|----------|------------------|
| | 2018 | 2017 | |
| Subscription and support | \$ 2,033 | \$ 1,617 | \$ 416 |
| Professional services and other | 740 | 617 | 123 |
| Total cost of revenues | \$ 2,773 | \$ 2,234 | \$ 539 |
| Percent of total revenues | 26% | 26% | |

The increase in cost of revenues was primarily due to an increase of \$192 million in employee-related costs, an increase of \$23 million in stock-based expenses, an increase of \$197 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$38 million and an increase of \$23 million in allocated overhead. We increased our headcount by 11 percent during fiscal 2018 to meet the higher demand for services from our customers and as a result of our fiscal 2017 acquisitions.

The cost of professional services and other revenues was \$740 million during fiscal 2018 resulting in positive gross margin of \$34 million. The cost of professional services and other revenues was \$617 million during fiscal 2017 resulting in positive gross margins of \$21 million.

Operating Expenses.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|----------------------------|-------------------------------|----------|------------------|
| | 2018 | 2017 | |
| Research and development | \$ 1,553 | \$ 1,208 | \$ 345 |
| Marketing and sales | 4,671 | 3,811 | 860 |
| General and administrative | 1,089 | 966 | 123 |
| Total operating expenses | \$ 7,313 | \$ 5,985 | \$ 1,328 |
| Percent of total revenues | 69% | 71% | |

The increase in research and development expenses was primarily due to an increase of approximately \$212 million in employee-related costs, an increase of \$72 million in stock-based expenses, an increase in our development and test data center costs and allocated overhead. We increased our research and development headcount by 11 percent during fiscal 2018 in order to improve and extend our service offerings, develop new technologies and integrate previously acquired companies, including our fiscal 2017 acquisitions.

The change in marketing and sales expenses was primarily due to an increase of \$637 million in employee-related costs and amortization of deferred commissions, an increase of \$80 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$23 million and allocated overhead. Our marketing and sales headcount increased by 22 percent

during fiscal 2018. The increase in headcount was primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

The increase in general and administrative expenses was primarily due to an increase in employee-related costs. Our general and administrative headcount increased by 16 percent during fiscal 2018 as we added personnel to support our growth.

Other income and expense.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|-------------------------------------|-------------------------------|-------|------------------|
| | 2018 | 2017 | |
| Investment income | \$ 36 | \$ 27 | \$ 9 |
| Interest expense | (87) | (89) | 2 |
| Gains on strategic investments, net | 19 | 31 | (12) |
| Other income (expense) | (2) | (8) | 6 |

The increase in investment income was due to higher interest income across our portfolio.

Interest expense consists of interest on our convertible senior notes, capital leases, financing obligation related to 350 Mission, the loan assumed on 50 Fremont, revolving credit facility and the \$500 million term loan that was entered into in connection with our acquisition of Demandware.

Gains on strategic investments, net represents strategic investments' fair market value adjustments and gains recognized related to strategic investments when we acquire an entity in which we previously held a strategic investment. The difference between the fair value of the shares as of the date of the acquisition and the carrying value of the strategic investment is recorded as a gain or loss. The change in gains on strategic investments, net was primarily due to \$14 million of gains resulting from our acquisition of companies in which we held strategic investments in fiscal 2017.

Other income (expense) primarily consists of non-operating transactions such as gains and losses from foreign exchange rate fluctuations and real estate transactions.

Benefit from (provision for) income taxes.

| (in millions) | Fiscal Year Ended January 31, | | Variance Dollars |
|---|-------------------------------|--------|------------------|
| | 2018 | 2017 | |
| Benefit from (provision for) income taxes | \$ (60) | \$ 144 | \$ (204) |
| Effective tax rate | 14% | (80)% | |

We recognized a tax provision of \$60 million on a pretax income of \$420 million for fiscal 2018. The tax provision recorded was primarily related to income taxes in profitable jurisdictions outside of the United States.

In fiscal 2017, we recorded a tax benefit of \$144 million on a pretax income of \$179 million for fiscal 2017. The most significant component of this tax amount was the discrete tax benefit of \$210 million from a partial release of the valuation allowance in connection with the acquisition of Demandware. The net deferred tax liability from the acquisition of Demandware provided a source of additional income to support the realizability of our pre-existing deferred tax assets and, as a result, we released a portion of our valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside of the United States.

Liquidity and Capital Resources

At January 31, 2019, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$4.3 billion and accounts receivable of \$4.9 billion. Our cash, cash equivalents and marketable securities are comprised primarily of corporate notes and obligations, U.S. treasury securities, asset backed securities, foreign government obligations, mortgage backed obligations, time deposits, money market mutual funds and municipal securities.

As of January 31, 2019, our remaining performance obligation was \$25.7 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, which may affect our ability to complete subsequent acquisitions or investments.

Cash Flows

For fiscal 2019, 2018 and 2017, our cash flows were as follows (in millions):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Net cash provided by operating activities | \$ 3,398 | \$ 2,738 | \$ 2,162 |
| Net cash used in investing activities | (5,308) | (2,011) | (2,684) |
| Net cash provided by financing activities | 2,010 | 221 | 998 |

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. Net cash provided by operating activities was also impacted by payments made during fiscal 2019 for the transaction fees related to the acquisition of MuleSoft.

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

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

The net cash used in investing activities during fiscal 2019 primarily related to the acquisitions of MuleSoft, Datorama and CloudCraze, net of cash acquired for a total of \$5.1 billion. Net cash used in investing activities also included purchases of marketable securities of \$1.1 billion, purchases of strategic investments of \$362 million and new office build outs and capital investments of \$595 million, offset by sales of marketable securities of \$1.4 billion. The net cash used in investing activities during fiscal 2018 primarily related to purchases of marketable securities of \$2.0 billion, new office build-outs and capital investments of \$534 million, which were offset by the cash inflows for the period from sales and maturities of marketable securities of \$636 million. The net cash used in investing activities during fiscal 2017 primarily related to business combinations with the largest being the acquisition of Demandware in July 2016 and purchases of marketable securities, which were offset by the cash inflows for the period from sales and maturities of marketable securities.

Net cash provided by financing activities during fiscal 2019 consisted primarily of \$3.0 billion from proceeds from issuance of debt which were used in the acquisition of MuleSoft, and \$704 million from proceeds from equity plans, offset by \$1.5 billion of repayments of debt including principal payments on the maturity of the 0.25% Senior Notes and the early repayment and termination of the 2019 Term Loan. Net cash provided by financing activities during fiscal 2018 consisted primarily of \$650 million from proceeds from equity plans offset by \$323 million in repayments of debt. Net cash provided by

financing activities during fiscal 2017 consisted primarily of proceeds from issuance of debt, which were used to partially fund acquisitions, offset by repayments of debt.

Debt

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

| Instrument | Date of issuance | Maturity date | Effective interest rate for fiscal 2019 | January 31, 2019 | January 31, 2018 |
|--------------------------------|------------------|---------------|---|------------------|------------------|
| 2021 Term Loan | May 2018 | May 2021 | 3.05% | \$ 499 | \$ 0 |
| 2023 Senior Notes | April 2018 | April 2023 | 3.26% | 993 | 0 |
| 2028 Senior Notes | April 2018 | April 2028 | 3.70% | 1,488 | 0 |
| 2019 Term Loan | July 2016 | July 2019 | 2.96% | 0 | 498 |
| Loan assumed on 50 Fremont | February 2015 | June 2023 | 3.75% | 196 | 199 |
| 0.25% Convertible Senior Notes | March 2013 | April 2018 | 2.53% | 0 | 1,023 |
| Total carrying value of debt | | | | 3,176 | 1,720 |
| Less current portion of debt | | | | (3) | (1,025) |
| Total noncurrent debt | | | | \$ 3,173 | \$ 695 |

As of January 31, 2019, we have senior unsecured debt outstanding due in 2021, 2023 and 2028 with a total carrying value of \$3.0 billion. In addition, we have senior secured notes outstanding related to our loan on 50 Fremont due in 2023 with a total carrying value of \$196 million. We were in compliance with all debt covenants as of January 31, 2019.

We maintain a revolving loan credit agreement that provides for \$1.0 billion unsecured financing ("Credit Facility") that matures in April 2023. We 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 January 31, 2019.

As of January 31, 2019, we have a total of \$92 million in letters of credit outstanding in favor of certain landlords for office space. To date, no amounts have been drawn against the letters of credit, which renew annually and expire at various dates through December 2030.

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

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 January 31, 2019, the future non-cancelable minimum payments under these commitments were as follows (in millions):

| | Payments Due by Period | | | | | |
|--|------------------------|------------------|-----------------|-----------------|-------------------|------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | |
| Capital lease obligations, including interest | \$ 200 | \$ 200 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Operating lease obligations: | | | | | | |
| Facilities space | 3,473 | 405 | 775 | 683 | 1,610 | |
| Computer equipment and furniture and fixtures | 722 | 373 | 349 | 0 | 0 | |
| Financing obligation - leased facility | 279 | 22 | 46 | 48 | 163 | |
| Lease obligation - buildings to be constructed | 955 | 0 | 0 | 0 | 955 | |
| 2021 Term loan | 500 | 0 | 500 | 0 | 0 | |
| 2023 Senior Notes | 1,000 | 0 | 0 | 1,000 | 0 | |
| 2028 Senior Notes | 1,500 | 0 | 0 | 0 | 1,500 | |
| Loan assumed on 50 Fremont | 198 | 3 | 8 | 187 | 0 | |
| Contractual commitments | 1,867 | 278 | 722 | 779 | 88 | |
| | \$ 10,694 | \$ 1,281 | \$ 2,400 | \$ 2,697 | \$ 4,316 | |

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

The financing obligation - leased facility above represents the total obligation for our lease of approximately 445,000 rentable square feet of office space at 350 Mission St. ("350 Mission") in San Francisco, California. As of January 31, 2019, \$215 million of the total obligation noted above was recorded to Financing obligation - leased facility, of which the current portion is included in "Accrued expenses and other liabilities" and the noncurrent portion is included in "Other noncurrent liabilities" on the consolidated balance sheets.

The lease obligation - buildings to be constructed above represents the total obligation for two separate agreements for office facilities we entered into during fiscal 2019. The first agreement is for approximately 324,000 rentable square feet of office space in a building to be constructed as part of our urban campus in San Francisco, California. We expect to begin occupying the space in fiscal 2024 and the total non-cancelable minimum payments under this agreement are approximately \$480 million over 16 years. Construction has not commenced on the building and is dependent on the developer obtaining approvals from the City and County of San Francisco. The second agreement is for approximately 603,000 rentable square feet of office space in a building to be constructed in Chicago, Illinois. We expect to begin occupying the space in fiscal 2022 and the total non-cancelable minimum payments under this agreement are approximately \$475 million over 17 years. As of January 31, 2019 construction has not commenced on either of these buildings and the timing of completion of construction is unknown. Due to this uncertainty, the entire commitment for these two obligations is reflected as payments due in more than five years in the table above.

We have entered into various contractual commitments with infrastructure service providers for a total commitment of \$2.0 billion, which are reflected in the table above under "contractual commitments." As of January 31, 2019, the total remaining commitment is approximately \$1.8 billion and \$264 million is due in the next fiscal year.

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

During fiscal 2019 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 continued office build-outs, other leasehold improvements and data center investments.

Utilization of tax carryforwards and credits

As we continue our trend in profitability, we expect to utilize our net operating loss carryforward and various tax credits to reduce our cash tax payments. For example, our Federal net operating loss carryforwards are \$2.1 billion as of January 31,

2019 as compared to \$2.7 billion as of January 31, 2018. We expect our cash tax payments for the next 12 months, primarily from profitable jurisdictions outside of the U.S., to be consistent with those paid in prior years.

New Accounting Pronouncements

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

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.

Below are some of the key highlights of our ongoing ESG efforts:

- In fiscal 2019, we remained a net-zero greenhouse gas emissions company, continued delivering a carbon neutral cloud for all customers and procured electricity from renewable energy resources equivalent to 55 percent of what we used globally. To support our commitment to renewable energy, we have signed four virtual power purchase agreements ("VPPAs"). This includes two agreements which were signed in fiscal 2019: our largest VPPA to date with a new wind energy project in Illinois that is expected to be operational in fiscal year 2020, and our first-ever renewable energy aggregation deal with a new solar energy project in North Carolina which is expected to be operational in fiscal 2021. In addition, the three buildings at our corporate headquarters in San Francisco sourced 100 percent renewable energy in fiscal 2019.
- We are active in and support organizations that move the United States and the world toward a more sustainable, low-carbon future. In fiscal 2019, we partnered with Mission 2020 to establish the Step Up Declaration, a new alliance committed to harnessing the power of emerging technologies to help reduce emissions across all economic sectors. As part of the declaration we committed to expand our carbon offset program to include business travel and employee commuting, and to continue to expand our sustainable real estate commitments. We also committed to setting our own science-based targets, including working with our suppliers to set their own climate targets. In addition, we were a founding member of the Business Renewables Center, signed the Corporate Renewable Energy Buyers' Principles, helped to launch the Corporate Colocation and Cloud Buyers' Principles, disclosed our annual carbon emissions to the Carbon Disclosure Project and signed on to initiatives such as We Mean Business and the American Business Act on Climate.
- As part of our ongoing work to promote equality, we review the salaries and bonuses of our global workforce on an annual basis to ensure everyone is paid equally for equal work and close any unexplained gaps. To date, we have spent \$8.7 million to ensure equal pay for equal work. We also review differences in pay for not only gender, but also race and ethnicity in the United States.
- Our employees are engaged in and actively support our commitment to equality and enhancing our Ohana culture. We support ten employee-led and founded “Ohana Groups,” which provide a community for underrepresented groups and their allies, offer professional development and mentoring opportunities, and empower employees to be responsive equality leaders in their community. This has resulted in nearly half of our employees engaging in Ohana Groups in fiscal 2019.
- Together with the Salesforce Foundation, a 501(c)(3) nonprofit organization, and Salesforce.org, a nonprofit social enterprise, which are not included in our consolidated financial statements, to date we have given approximately \$260 million to charitable organizations, logged more than 3.8 million employee volunteer hours around the world and provided more than 40,000 nonprofit and higher education organizations with the use of our service offerings for free or at a discount.
- We have significantly increased the diversity of our Board over the past five years, including with respect to gender and race.

We leverage a number of communications channels and strategic content to better serve and engage our many stakeholders. Our sustainability website, www.salesforce.com/company/sustainability, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

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

In fiscal 2020, we will begin transitioning away from this UK-centralized European structure and enable some of our local subsidiaries within Europe to invoice customers directly and thereby 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 thereby reducing our foreign currency exposure.

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 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 fiscal 2019, 2018 and 2017, total revenues generated in Europe were approximately 19 percent, 18 percent and 16 percent of total revenues, respectively, of which substantially all were recorded in our UK subsidiary. Revenues in Europe increased on a total dollar basis by \$35 million and \$104 million in fiscal 2019 compared to fiscal 2018 and fiscal 2018 compared to fiscal 2017, respectively, as a result of the strengthening 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 consolidated balance sheets with changes in fair values recorded to our consolidated statements of operations. Given the short duration of the forward contracts, the amount recorded is not significant. Our ultimate

realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized gain or loss on our foreign currency forward contracts and other factors.

Foreign Currency Translation Risk

Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenues, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into USD. Although the USD fluctuated against certain international currencies over the past several months, the amounts of revenue and unearned revenue 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 \$4.3 billion at January 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 January 31, 2019 could result in a \$21 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, 2018, we had cash, cash equivalents and marketable securities totaling \$4.5 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 \$34 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 January 31, 2019 | Interest Terms | Effective interest rate for fiscal 2019 |
|----------------------------|---------------|--|----------------|---|
| 2021 Term Loan | May 2021 | \$ 500 | Floating | 3.05% |
| 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 | 198 | Fixed | 3.75% |
| Revolving credit facility | April 2023 | 0 | Floating | N/A |

The 2021 Term Loan bears interest, at our option, at either a base rate plus a spread of 0.00% to 0.25% or an adjusted LIBOR rate plus a spread of 0.625% to 1.25%, in each case, with such spread being determined based on our credit rating. By entering into the 2021 Term Loan, we have assumed risks associated with variable interest rates based upon a variable base rate or LIBOR. Changes in the overall level of interest rates affect the interest expense that we recognize in our statements of operations. The 2021 Term Loan was signed in April 2018 and funds were received in May 2018.

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 public

debt rating, payable in arrears quarterly. As of January 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 public and privately held companies, which range from early-stage companies to more mature companies with established revenue streams and business models. As of January 31, 2019, our portfolio, which consists of investments in over 235 privately held companies and six public companies, is primarily comprised of independent software vendors and system integrators. Our investments in these companies range from \$0.1 million to approximately \$105 million, with 21 investments individually equal to or in excess of approximately \$10 million as of January 31, 2019.

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

The primary purpose of our investments is to create an ecosystem of enterprise cloud companies, accelerate the growth of technology startups and system integrators and create the next generation of AI, mobile applications and connected products. Therefore, we continually evaluate our investments in privately held and publicly traded companies. In certain cases, our ability to sell these investments may be impacted by contractual obligations to hold the securities for a set period of time after a public offering. Currently, three of our six publicly held investments are subject to such a contractual obligation, which expire in the first quarter of fiscal 2020.

Upon adoption of ASU 2016-01 in the first quarter of fiscal 2019, we are now required to record all fair value adjustments of our publicly traded and privately held equity investments through the statement of operations. As such we anticipate additional volatility to our statements of operations in future periods, due to changes in market prices of our investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of our investments in privately held securities. 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.

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 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of salesforce.com, inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. (the Company) as of January 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 8, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for recognizing revenue from contracts with customers and recognizing costs related to obtaining a contract retrospectively in the period ended January 31, 2019. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting on a prospective basis for privately held equity securities and on a modified retrospective basis for publicly held equity investments, in the period ended January 31, 2019.

Basis for Opinion

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

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

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002

Redwood City, California
March 8, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited salesforce.com, inc.'s internal control over financial reporting as of January 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, salesforce.com, inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 31, 2019, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of MuleSoft, Inc., which is included in the January 31, 2019 consolidated financial statements of the Company and constituted two percent and one percent of total and net assets, respectively, as of January 31, 2019 and three percent and three percent of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of MuleSoft, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)2, and our report dated March 8, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Redwood City, California
March 8, 2019

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

| | January 31, 2019 | January 31, 2018 (as adjusted) |
|---|---------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,669 | \$ 2,543 |
| Marketable securities | 1,673 | 1,978 |
| Accounts receivable, net of allowance for doubtful accounts of \$22 and \$21 at January 31, 2019 and 2018, respectively | 4,924 | 3,921 |
| Costs capitalized to obtain revenue contracts, net | 788 | 671 |
| Prepaid expenses and other current assets | 629 | 471 |
| Total current assets | 10,683 | 9,584 |
| Property and equipment, net | 2,051 | 1,947 |
| Costs capitalized to obtain revenue contracts, noncurrent, net | 1,232 | 1,105 |
| Capitalized software, net | 152 | 146 |
| Strategic investments | 1,302 | 677 |
| Goodwill | 12,851 | 7,314 |
| Intangible assets acquired through business combinations, net | 1,923 | 827 |
| Other assets, net | 543 | 384 |
| Total assets | <u>\$ 30,737</u> | <u>\$ 21,984</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 165 | \$ 76 |
| Accrued compensation | 1,167 | 1,001 |
| Accrued expenses and other liabilities | 1,356 | 970 |
| Unearned revenue | 8,564 | 6,995 |
| Current portion of debt | 3 | 1,025 |
| Total current liabilities | 11,255 | 10,067 |
| Noncurrent debt | 3,173 | 695 |
| Other noncurrent liabilities | 704 | 846 |
| Total liabilities | <u>15,132</u> | <u>11,608</u> |
| Commitments and contingencies (See Notes 13 and 15) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 5,000 shares authorized and none issued and outstanding | 0 | 0 |
| Common stock, \$0.001 par value; 1,600 shares authorized, 770 and 730 issued and outstanding at January 31, 2019 and 2018, respectively | 1 | 1 |
| Additional paid-in capital | 13,927 | 9,752 |
| Accumulated other comprehensive loss | (58) | (12) |
| Retained earnings | 1,735 | 635 |
| Total stockholders' equity | <u>15,605</u> | <u>10,376</u> |
| Total liabilities and stockholders' equity | <u>\$ 30,737</u> | <u>\$ 21,984</u> |

See accompanying Notes.

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

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|--------------------|--------------------|
| | 2019 | 2018 (as adjusted) | 2017 (as adjusted) |
| Revenues: | | | |
| Subscription and support | \$ 12,413 | \$ 9,766 | \$ 7,799 |
| Professional services and other | 869 | 774 | 638 |
| Total revenues | <u>13,282</u> | <u>10,540</u> | <u>8,437</u> |
| Cost of revenues (1)(2): | | | |
| Subscription and support | 2,604 | 2,033 | 1,617 |
| Professional services and other | 847 | 740 | 617 |
| Total cost of revenues | <u>3,451</u> | <u>2,773</u> | <u>2,234</u> |
| Gross profit | 9,831 | 7,767 | 6,203 |
| Operating expenses (1)(2): | | | |
| Research and development | 1,886 | 1,553 | 1,208 |
| Marketing and sales | 6,064 | 4,671 | 3,811 |
| General and administrative | 1,346 | 1,089 | 966 |
| Total operating expenses | <u>9,296</u> | <u>7,313</u> | <u>5,985</u> |
| Income from operations | 535 | 454 | 218 |
| Investment income | 57 | 36 | 27 |
| Interest expense | (154) | (87) | (89) |
| Gains on strategic investments, net | 542 | 19 | 31 |
| Other income (expense) | 3 | (2) | (8) |
| Income before benefit from (provision for) income taxes | 983 | 420 | 179 |
| Benefit from (provision for) income taxes (3) | 127 | (60) | 144 |
| Net income | \$ 1,110 | \$ 360 | \$ 323 |
| Basic net income per share | \$ 1.48 | \$ 0.50 | \$ 0.47 |
| Diluted net income per share | \$ 1.43 | \$ 0.49 | \$ 0.46 |
| Shares used in computing basic net income per share | 751 | 715 | 688 |
| Shares used in computing diluted net income per share | 775 | 735 | 700 |

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

| | Fiscal Year Ended January 31, | | |
|---------------------|-------------------------------|--------|--------|
| | 2019 | 2018 | 2017 |
| Cost of revenues | \$ 215 | \$ 166 | \$ 128 |
| Marketing and sales | 232 | 121 | 98 |

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

| | Fiscal Year Ended January 31, | | |
|----------------------------|-------------------------------|--------|--------|
| | 2019 | 2018 | 2017 |
| Cost of revenues | \$ 161 | \$ 130 | \$ 107 |
| Research and development | 307 | 260 | 188 |
| Marketing and sales | 643 | 469 | 389 |
| General and administrative | 172 | 138 | 136 |

(3) Amounts include a benefit related to the partial release of the valuation allowance of \$612 million, \$2 million and \$226 million for fiscal 2019, 2018 and 2017, respectively. The fiscal 2019 benefit was partially offset by an increase in unrecognized tax benefits.

See accompanying Notes.

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

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|--------------------|--------------------|
| | 2019 | 2018 (as adjusted) | 2017 (as adjusted) |
| Net income | \$ 1,110 | \$ 360* | \$ 323* |
| Other comprehensive income (loss), net of reclassification adjustments: | | | |
| Foreign currency translation and other gains (losses) | (26) | 77* | (53)* |
| Unrealized gains (losses) on marketable securities and strategic investments | (12) | (4) | 14 |
| Other comprehensive income (loss), before tax | (38) | 73 | (39) |
| Tax effect | (1) | 1 | 3 |
| Other comprehensive income (loss), net | (39) | 74 | (36) |
| Comprehensive income | <u>\$ 1,071</u> | <u>\$ 434</u> | <u>\$ 287</u> |

*Prior period information has been adjusted for Topic 606.

See accompanying Notes.

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

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings / (Accumulated Deficit) | Total Stockholders' Equity |
|--|--------------|-------------|----------------------------------|---|--|----------------------------------|
| | Shares | Amount | | | | |
| Balance at January 31, 2016 | 671 | \$ 1 | \$ 5,705 | \$ (50) | \$ (653) | \$ 5,003 |
| Cumulative effect of accounting changes | 0 | 0 | 0 | 0 | 596 | 596 |
| Common stock issued | 16 | 0 | 327 | 0 | 0 | 327 |
| Shares issued related to business combinations, net | 20 | 0 | 1,192 | 0 | 0 | 1,192 |
| Stock-based expenses | 0 | 0 | 816 | 0 | 0 | 816 |
| Other comprehensive loss, net of tax | 0 | 0 | 0 | (36) | 0 | (36) |
| Excess tax benefits cumulative-effect adjustment | 0 | 0 | 0 | 0 | 9 | 9 |
| Net income | 0 | 0 | 0 | 0 | 323* | 323 |
| Balance at January 31, 2017 | 707 | \$ 1 | \$ 8,040 | \$ (86) | \$ 275 | \$ 8,230 |
| Common stock issued | 23 | 0 | 709 | 0 | 0 | 709 |
| Shares issued related to business combinations, net | 0 | 0 | 12 | 0 | 0 | 12 |
| Temporary equity reclassification related to convertible notes | 0 | 0 | (4) | 0 | 0 | (4) |
| Stock-based expenses | 0 | 0 | 995 | 0 | 0 | 995 |
| Other comprehensive income, net of tax | 0 | 0 | 0 | 74 | 0 | 74 |
| Net income | 0 | 0 | 0 | 0 | 360* | 360 |
| Balance at January 31, 2018 | 730 | \$ 1 | \$ 9,752 | \$ (12) | \$ 635 | \$ 10,376 |
| Cumulative effect of accounting changes | 0 | 0 | 0 | (7) | (10) | (17) |
| Common stock issued | 21 | 0 | 695 | 0 | 0 | 695 |
| Shares issued related to business combinations, net | 13 | 0 | 2,195 | 0 | 0 | 2,195 |
| Settlement of convertible notes and warrants | 6 | 0 | 4 | 0 | 0 | 4 |
| Stock-based expenses | 0 | 0 | 1,281 | 0 | 0 | 1,281 |
| Other comprehensive loss, net of tax | 0 | 0 | 0 | (39) | 0 | (39) |
| Net income | 0 | 0 | 0 | 0 | 1,110 | 1,110 |
| Balance at January 31, 2019 | <u>770</u> | <u>\$ 1</u> | <u>\$ 13,927</u> | <u>\$ (58)</u> | <u>\$ 1,735</u> | <u>\$ 15,605</u> |

*Prior period information has been adjusted for Topic 606.

See accompanying Notes.

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

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|--------------------|--------------------|
| | 2019 | 2018 (as adjusted) | 2017 (as adjusted) |
| Operating activities: | | | |
| Net income | \$ 1,110 | \$ 360 | \$ 323 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 962 | 753 | 632 |
| Amortization of debt discount and issuance costs | 20 | 31 | 31 |
| Amortization of costs capitalized to obtain revenue contracts, net | 737 | 592 | 470 |
| Expenses related to employee stock plans | 1,283 | 997 | 820 |
| Gains on strategic investments, net | (542) | (19) | (31) |
| Changes in assets and liabilities, net of business combinations: | | | |
| Accounts receivable, net | (923) | (719) | (633) |
| Costs capitalized to obtain revenue contracts, net | (981) | (1,156) | (693) |
| Prepaid expenses and other current assets and other assets | (58) | 18 | (47) |
| Accounts payable | 74 | (39) | 35 |
| Accrued expenses and other liabilities | 213 | 392 | 69 |
| Unearned revenue | 1,503 | 1,528 | 1,186 |
| Net cash provided by operating activities | <u>3,398</u> | <u>2,738</u> | <u>2,162</u> |
| Investing activities: | | | |
| Business combinations, net of cash acquired | (5,115) | (25) | (3,193) |
| Purchases of strategic investments | (362) | (216) | (110) |
| Sales of strategic investments | 260 | 131 | 80 |
| Purchases of marketable securities | (1,068) | (2,003) | (1,070) |
| Sales of marketable securities | 1,426 | 558 | 2,005 |
| Maturities of marketable securities | 146 | 78 | 68 |
| Capital expenditures | (595) | (534) | (464) |
| Net cash used in investing activities | <u>(5,308)</u> | <u>(2,011)</u> | <u>(2,684)</u> |
| Financing activities: | | | |
| Proceeds from issuance of debt, net | 2,966 | 0 | 1,245 |
| Proceeds from employee stock plans | 704 | 650 | 401 |
| Principal payments on capital lease obligations | (131) | (106) | (98) |
| Repayments of debt | (1,529) | (323) | (550) |
| Net cash provided by financing activities | <u>2,010</u> | <u>221</u> | <u>998</u> |
| Effect of exchange rate changes | | | |
| | 26 | (12) | (27) |
| Net increase in cash and cash equivalents | | | |
| | 126 | 936 | 449 |
| Cash and cash equivalents, beginning of period | <u>2,543</u> | <u>1,607</u> | <u>1,158</u> |
| Cash and cash equivalents, end of period | <u>\$ 2,669</u> | <u>\$ 2,543</u> | <u>\$ 1,607</u> |

See accompanying Notes.

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

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|-------|----------|
| | 2019 | 2018 | 2017 |
| Supplemental cash flow disclosure: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 94 | \$ 40 | \$ 55 |
| Income taxes, net of tax refunds | \$ 83 | \$ 53 | \$ 36 |
| Non-cash investing and financing activities: | | | |
| Fair value of equity awards assumed | \$ 480 | \$ 0 | \$ 103 |
| Fair value of common stock issued as consideration for business combinations | \$ 1,715 | \$ 12 | \$ 1,089 |

See accompanying Notes.

salesforce.com, inc.
Notes to Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

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

The Company's core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things ("IoT") and artificial intelligence ("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 2019, for example, refer to the fiscal year ending 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 consolidated financial statements and notes thereto.

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

- the standalone selling price (SSP) of performance obligations for contracts with multiple performance obligations;
- the estimate of variable consideration as part of the adoption of Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09");
- the fair value of assets acquired and liabilities assumed for business combinations;
- the recognition, measurement and valuation of current and deferred income taxes;
- 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 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, the Company's business operates in one operating segment because the Company's offerings operate on its single Customer Success Platform and most of the Company's products are deployed in an 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.

In August 2018, the Company moved to a co-chief executive officer model with the promotion of the Company's vice chairman and chief operating officer. The Company determined that both co-chief executive officers also serve as chief operating decision makers for the purposes of segment reporting. Despite the change in the chief operating decision maker, the Company determined no change to segment reporting was necessary as there was no change in the components of the Company for which separate financial information is regularly evaluated.

Concentrations of Credit Risk and Significant Customers

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. 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 January 31, 2019 and January 31, 2018. No single customer accounted for five percent or more of total revenue during fiscal 2019, 2018 and 2017. As of January 31, 2019 and January 31, 2018, assets located outside the Americas were 14 percent and 17 percent of total assets, respectively. As of January 31, 2019 and January 31, 2018, assets located in the United States were 84 percent and 81 percent of total assets, respectively.

Revenue Recognition

Adoption of Topic 606

Effective at the start of fiscal 2019, the Company adopted the provisions and expanded disclosure requirements described in ASU 2014-09 also referred to as Topic 606. The Company adopted the standard using the full retrospective method. Accordingly, the results for the prior comparable periods were adjusted to conform to the current period measurement and recognition of results.

The impact of Topic 606 on reported revenue results was not material. Topic 606, however, modified the Company's revenue recognition policy in the following ways:

- Removal of the limitation on contingent revenue, which can result in the subscription and support revenue for certain multi-year customer contracts being recognized earlier in the duration of the contract term;
- More allocation of subscription and support revenues across the Company's cloud service offerings and to professional services revenue; and
- Inclusion of an estimate of variable consideration, such as overage fees, in the total transaction price, which results in the estimated fees being recognized ratably over the contract term, further resulting in the recognition of subscription and support revenues before the actual variable consideration occurs.

The Company used the following transitional practical expedients in the adoption of Topic 606:

- The Company has not disclosed the remaining performance obligation (formerly, remaining transaction price) for all of the reporting periods prior to the first quarter of fiscal 2019; and
- Contracts modified before fiscal 2017 were reflected using the retrospective method.

Additionally, as part of its business strategy, the Company periodically makes acquisitions of complementary businesses, services and technology. These acquired businesses may have customer arrangements that include the delivery of an on-premise software element combined with a software-as-a-service element. This was the case with the Company's acquisition of MuleSoft, Inc. ("MuleSoft") in May 2018. The Company has to apply significant judgment to determine the appropriate revenue recognition policy for such products and services since Topic 606 eliminated the provision that service revenue accounting was appropriate when the relative selling price of one or more deliverables in a multiple element solution arrangement could not be determined.

Revenue Recognition Policy

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.

With the adoption of Topic 606, 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 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.

Since the May 2018 acquisition of MuleSoft, subscription and support revenues also includes 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 and 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 as 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, its 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

As part of its adoption of ASU 2014-09, the Company capitalizes incremental costs of obtaining a non-cancelable subscription and support revenue contract. The provisions of ASU 2014-09 are significantly different than the Company's previous accounting for deferred commissions. The new guidance results in the capitalization of significantly more costs and longer amortization lives. Under the prior accounting guidance, the Company only capitalized sales commissions that had a direct and incremental relationship to a specific new revenue contract and amortized the capitalized amounts over the initial contract period, which was typically 12 to 36 months.

Under the new accounting, 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 consolidated statements of operations.

During fiscal 2019, the Company capitalized \$1.0 billion of costs to obtain revenue contracts and amortized \$0.7 billion to marketing and sales expense. During the same period a year ago, the Company capitalized \$1.2 billion of costs to obtain revenue contracts and amortized \$0.6 billion to marketing and sales expense. Costs capitalized to obtain a revenue contract, net on the Company's consolidated balance sheets totaled \$2.0 billion at January 31, 2019 and \$1.8 billion at January 31, 2018. There were no impairments of costs to obtain revenue contracts in fiscal 2019, 2018 and 2017.

Cash and Cash Equivalents

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

Marketable Securities

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

Strategic Investments

The Company holds strategic investments in publicly held equity securities and privately held debt and equity securities in which the Company does not have a controlling interest or significant influence. Publicly held equity securities are measured using quoted prices in their respective active markets with changes recorded through gains (losses) on strategic investments, net

on the consolidated statement of operations. Privately held equity securities without a readily determinable fair value are recorded at cost and adjusted for impairments and observable price changes with a same or similar security from the same issuer and are recorded through gains (losses) on strategic investments, net on the 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 consolidated balance sheet. If, based on the terms of these publicly traded and privately held 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.

Privately held debt and equity securities are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity. The 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. Valuations of privately held companies are inherently complex due to the lack of readily available market data. In addition, the determination of whether an orderly transaction is for a same or similar investment requires significant management judgment including the nature of rights and obligations of the investments, the extent to which differences in those rights and obligations would affect the fair values of those investments, and the impact of any differences based on the stage of operational development of the investee.

The Company assesses its privately held debt and equity securities strategic investment portfolio at least quarterly for impairment. The Company's impairment analysis encompasses an assessment of the severity and duration of the impairment and qualitative and quantitative analysis of other key factors including the investee's financial metrics, the investee's products and technologies meeting or exceeding predefined milestones, market acceptance of the product or technology, other competitive products or technology in the market, general market conditions, management and governance structure of the investee, the investee's liquidity, debt ratios and the rate at which the investee is using its cash. If the investment is considered to be impaired, the Company recognizes an impairment through the consolidated statement of operations and establishes a new carrying value for the investment.

Prior to fiscal 2019, investments in publicly held equity securities were classified as available-for-sale and measured and recorded at fair value with unrealized changes in fair value recorded through other comprehensive income. Prior to fiscal 2019, investments in privately held equity securities in which the Company did not have a controlling interest or significant influence were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in the Euro, British Pound Sterling, Japanese Yen, Canadian Dollar and Australian Dollar. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. As of January 31, 2019 and January 31, 2018, the outstanding foreign currency derivative contracts were recorded at fair value on the consolidated balance sheets.

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

Fair Value Measurement

The Company measures its cash and cash equivalents, marketable securities and foreign currency derivative contracts at fair value. 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 - leased facility | 27 years |
| Building improvements | 10 years |

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

Capitalized Software Costs

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

Intangible Assets Acquired through Business Combinations

Intangible assets are amortized over their estimated useful lives. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. 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 fiscal 2019, 2018 and 2017.

Business Combinations

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

Leases and Asset Retirement Obligations

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

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

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

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

Stock-Based Expense

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

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

Stock-based expenses related to performance share grants are measured based on grant date fair value and expensed on a straight-line basis, 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.

Advertising Expenses

Advertising is expensed as incurred. Advertising expense was \$482 million, \$373 million and \$350 million for fiscal 2019, 2018 and 2017, respectively.

Income Taxes

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

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

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income,

the expected timing of the reversals of existing temporary differences and tax planning strategies. The Company's judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans. 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 consolidated statement of comprehensive income. Foreign currency transaction gains and losses are included in other income in the 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 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 2019

Topic 606

In May 2014, the FASB issued ASU 2014-09, which in addition to replacing the existing revenue recognition guidance, provides guidance on the recognition of costs related to obtaining customer contracts. The adoption was material to the Company's reported operating results and balance sheet for fiscal 2018 and 2017, as it requires additional types of costs to be capitalized and amortized over a longer period. The Company also recorded the related income tax effects, which did not have a material impact due to the Company's valuation allowance. The adoption had no impact to the Company's operating cash flow.

The adoption of ASU 2014-09 impacted the Company's previously reported results as follows (in millions, except per share data):

| | Fiscal Year Ended January 31, 2018 | | | Fiscal Year Ended January 31, 2017 | | |
|---|------------------------------------|---------|-------------|------------------------------------|---------|-------------|
| | As reported | Change | As adjusted | As reported | Change | As adjusted |
| Total revenues | \$ 10,480 | \$ 60 | \$ 10,540 | \$ 8,392 | \$ 45 | \$ 8,437 |
| Marketing and sales | 4,829 | (158) | 4,671 | 3,918 | (107) | 3,811 |
| Benefit from (provision for) income taxes | (75) | 15 | (60) | 155 | (11) | 144 |
| Net income | \$ 127 | \$ 233 | \$ 360 | \$ 180 | \$ 143 | \$ 323 |
| Diluted net income per share | \$ 0.17 | \$ 0.32 | \$ 0.49 | \$ 0.26 | \$ 0.20 | \$ 0.46 |

The number of shares utilized to calculate the fiscal 2018 and 2017 diluted net income per share was 735 million and 700 million, respectively.

The adoption of ASU 2014-09 impacted the Company's previously reported financial position as of January 31, 2018 as follows (in millions):

| | As reported | Change | As adjusted |
|--|--------------------|---------------|--------------------|
| Accounts receivable, net | \$ 3,918 | \$ 3 | \$ 3,921 |
| Costs capitalized to obtain revenue contracts, net | 461 | 210 | 671 |
| Prepaid expenses and other current assets | 390 | 81 | 471 |
| Costs capitalized to obtain revenue contracts, noncurrent, net | 413 | 692 | 1,105 |
| Other assets, net | 396 | (12) | 384 |
| Accrued compensation | 961 | 40 | 1,001 |
| Accrued expenses and other liabilities | 973 | (3) | 970 |
| Unearned revenue | 7,095 | (100) | 6,995 |
| Other noncurrent liabilities | 796 | 50 | 846 |
| Stockholders' equity | 9,389 | 987 | 10,376 |

ASU 2016-01

In January 2016, the FASB issued ASU 2016-01, which requires entities to measure equity instruments at fair value and recognize any changes in fair value within the statement of operations. The Company adopted ASU 2016-01 in the first quarter of fiscal 2019 on a prospective basis for privately held equity securities and a modified retrospective basis for publicly held equity investments. Upon adoption of ASU 2016-01, the Company reclassified approximately \$13 million of unrealized gains related to its publicly traded equity investments and approximately \$6 million reflecting the tax impact, from accumulated other comprehensive loss on the balance sheet to retained earnings. For fiscal 2019, the Company recorded net unrealized gains of \$464 million, which excludes recognized gains on the sale of investments of \$78 million, in the consolidated statement of operations, and the Company anticipates additional volatility to the Company's statements of operations in future periods, due to changes in market prices of the Company's investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of its investments in privately held securities.

ASU 2016-16

In October 2016, the FASB issued ASU 2016-16, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs. The Company adopted the standard in the first quarter of fiscal 2019 using the modified retrospective transition method and reclassified a cumulative-effect adjustment to reduce retained earnings as of the effective date of approximately \$17 million.

Accounting Pronouncements Pending Adoption

ASU 2016-02

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires lessees to record most leases on their balance sheet but recognize the expenses on their statement of operations in a manner similar to current accounting guidance "Leases (Topic 840)". ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. ASU 2016-02 will be effective for fiscal 2020, including interim periods within that reporting period.

Upon adoption of ASU 2016-02 the Company plans to elect the package of practical expedients and not reassess prior conclusions on whether contracts are or contain a lease, lease classification, and initial direct costs. In addition, the Company plans to adopt the lessee practical expedient to combine lease and non-lease components for all asset classes. The Company expects to make a policy election to not recognize right-of-use assets or lease liabilities for short term leases of all asset classes. The Company does not plan to elect the practical expedient to use hindsight when determining lease term.

ASC 2016-02 will have a material impact on the Company's consolidated balance sheet. Leases currently designated as operating leases in Note 13, "Commitments," will be reported on the consolidated balance sheet upon adoption at their net present value, which will increase total assets and liabilities. In addition, the financing obligation and building asset associated with the Company's leased facility at 350 Mission Street will be derecognized upon adoption of ASC 2016-02 and the lease will be accounted for as a finance type lease, which will result in the recognition of a right of use asset and a lease liability. ASU 2016-02 is not expected to have a material impact to the Company's consolidated statement of operations or net cash provided by operating activities. In addition, the Company does not expect any impact to the Company's debt covenants. In preparation for adoption of the standard, the Company is in the process of implementing key systems, processes and internal controls to enable the preparation of financial information.

In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements" ("ASU 2018-11"), which allows for the adoption of ASU 2016-02 to be applied at the beginning of the year of adoption, as opposed to at the beginning of the earliest year presented in the financial statements. The Company will adopt the transitional provisions allowed under

ASU 2018-11 and as such, the consolidated balance sheets and statements of operations for prior periods will not be comparable in the year of adoption of ASU 2016-02.

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.

ASU 2018-15

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 (ASU 2018-15) "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company does not expect the adoption of ASU 2018-15 to be material.

Reclassifications

Certain reclassifications to fiscal 2018 and 2017 balances were made to conform to the current period presentation in the consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows. These reclassifications did not affect total revenues, operating income or net income.

2. Revenues

Disaggregation of Revenue

Subscription and Support Revenue by the Company's core service offerings

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

| | Fiscal Year Ended January 31, | | |
|-------------------------------|-------------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| Sales Cloud | \$ 4,040 | \$ 3,588 | \$ 3,076 |
| Service Cloud | 3,621 | 2,883 | 2,343 |
| Salesforce Platform and Other | 2,854 | 1,913 | 1,433 |
| Marketing and Commerce Cloud | 1,898 | 1,382 | 947 |
| | \$ 12,413 | \$ 9,766 | \$ 7,799 |

Total Revenue by Geographic Locations

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

| | Fiscal Year Ended January 31, | | |
|--------------|-------------------------------|------------------|-----------------|
| | 2019 | 2018 | 2017 |
| Americas | \$ 9,445 | \$ 7,621 | \$ 6,259 |
| Europe | 2,553 | 1,916 | 1,383 |
| Asia Pacific | 1,284 | 1,003 | 795 |
| | \$ 13,282 | \$ 10,540 | \$ 8,437 |

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 fiscal

2019, 2018, and 2017, respectively. No other country represented more than ten percent of total revenue during fiscal 2019, 2018 and 2017.

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. Under Topic 606, the timing and amount of revenue recognition may differ in certain situations from the revenue recognized under previous accounting guidance that limited subscription and support revenue to the customer invoice amount for the period of service (collectively billings). Under Topic 606, the Company records a contract asset when revenue recognized on a contract exceeds the billings and unearned revenue when the billings on a contract exceed the revenue recognized. The Company's standard billing terms are annual in advance. Contract assets were \$215 million as of January 31, 2019 as compared to \$81 million as of January 31, 2018. Approximately \$122 million of contract assets were acquired in connection with the May 2018 MuleSoft acquisition. Impairments of contract assets were immaterial in fiscal 2019, 2018 and 2017.

Unearned Revenue

The concept of unearned revenue under Topic 606 is substantially similar to deferred revenue under previous accounting guidance, except for the removal of the limitation on contingent revenue. The unearned revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Unearned revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services, including software licenses, described above and is recognized as revenue when transfer of control to customers has occurred. 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 changes in unearned revenue were as follows (in millions):

| | Fiscal Year Ended January 31, 2019 |
|---|---|
| Unearned revenue, beginning of period | \$ 6,995 |
| Billings and other* | 14,770 |
| Contribution from contract asset | 13 |
| Revenue recognized ratably over time | (12,426) |
| Revenue recognized over time as delivered | (629) |
| Revenue recognized at a point in time | (227) |
| Unearned revenue from business combinations | 68 |
| Unearned revenue, end of period | <hr/> <hr/> \$ 8,564 |

*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.

Revenue recognized over time as delivered includes professional services billed on a time and material 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 includes the portion of software subscriptions allocated to the on-premise software element, which either resulted in smaller unearned revenue or a contract asset.

Approximately 52 percent of revenue recognized in fiscal 2019 is from the unearned revenue balance as of January 31, 2018.

Remaining Performance Obligation

Topic 606 also introduced the concept of the transaction price allocated to the remaining performance obligations, referred to by the Company as remaining performance obligation, which is different than unbilled deferred revenue under previous accounting guidance. Transaction price allocated to the 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, 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.

The Company applied the practical expedient in accordance with Topic 606 to exclude 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-material basis.

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

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

| | Current | Noncurrent | Total |
|-------------------------|---------|------------|---------|
| As of January 31, 2019* | \$ 11.9 | \$ 13.8 | \$ 25.7 |

*Includes \$450 million of remaining performance obligation related to the MuleSoft acquisition, including contracts executed subsequent to acquisition.

3. Investments

Marketable Securities

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> |

At January 31, 2018, 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 | \$ 1,223 | \$ 1 | \$ (7) | \$ 1,217 |
| U.S. treasury securities | 196 | 0 | (2) | 194 |
| Mortgage backed obligations | 100 | 0 | (1) | 99 |
| Asset backed securities | 251 | 0 | (1) | 250 |
| Municipal securities | 53 | 0 | (1) | 52 |
| Foreign government obligations | 87 | 0 | (1) | 86 |
| U.S. agency obligations | 19 | 0 | 0 | 19 |
| Commercial paper | 11 | 0 | 0 | 11 |
| Covered bonds | 51 | 0 | (1) | 50 |
| Total marketable securities | <u>\$ 1,991</u> | <u>\$ 1</u> | <u>\$ (14)</u> | <u>\$ 1,978</u> |

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

| | As of | |
|---------------------------------|---------------------|---------------------|
| | January 31, 2019 | January 31, 2018 |
| Due within 1 year | \$ 482 | \$ 395 |
| Due in 1 year through 5 years | 1,189 | 1,579 |
| Due in 5 years through 10 years | 2 | 4 |
| | <u>\$ 1,673</u> | <u>\$ 1,978</u> |

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

| | Less than 12 Months | | 12 Months or Greater | | Total | |
|---------------------------------|---------------------|-------------------|----------------------|-------------------|-----------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Corporate notes and obligations | \$ 392 | \$ (2) | \$ 457 | \$ (6) | \$ 849 | \$ (8) |
| U.S. treasury securities | 0 | 0 | 71 | (1) | 71 | (1) |
| Mortgage backed obligations | 0 | 0 | 58 | (1) | 58 | (1) |
| Asset backed securities | 0 | 0 | 112 | (1) | 112 | (1) |
| Foreign government obligations | 0 | 0 | 49 | (1) | 49 | (1) |
| | <u>\$ 392</u> | <u>\$ (2)</u> | <u>\$ 747</u> | <u>\$ (10)</u> | <u>\$ 1,139</u> | <u>\$ (12)</u> |

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 January 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):

| | Fiscal Year Ended January 31, | | |
|-------------------|-------------------------------|--------------|--------------|
| | 2019 | 2018 | 2017 |
| Interest income | \$ 61 | \$ 37 | \$ 22 |
| Realized gains | 1 | 1 | 8 |
| Realized losses | (5) | (2) | (3) |
| Investment income | <u>\$ 57</u> | <u>\$ 36</u> | <u>\$ 27</u> |

Strategic Investments

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

| | Measurement Category | | | |
|--------------------------------|----------------------|-------------------------|--------------|-----------------|
| | Fair Value (1) | Measurement Alternative | Other (2) | 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> |

(1) Equity securities under fair value represents the carrying value of strategic investments in publicly held equity securities.

(2) Other includes the Company's investments accounted for under the equity method of accounting or amortized cost.

Measurement Alternative Adjustments

Privately held equity securities accounted for under the measurement alternative as of January 31, 2019 were as follows (in millions):

| | Fiscal Year Ended January 31, 2019 |
|--|---|
| Carrying amount, beginning of period | \$ 548 |
| Adjustments related to privately held equity securities: | |
| Net additions | 95 |
| Impairments and downward adjustments | (32) |
| Upward adjustments | 174 |
| Carrying amount, end of period | <u><u>\$ 785</u></u> |

Gains (losses) on strategic investments, net

Gains and losses recognized in fiscal 2019, 2018 and 2017 were as follows (in millions):

| | Fiscal Year Ended January 31, | | |
|--|--------------------------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| Net gains recognized on publicly traded securities | \$ 345 | \$ 0 | \$ 0 |
| Net gains recognized on privately held securities | 133 | 19 | 31 |
| Net gains recognized on sales of equity securities | 74 | 0 | 0 |
| Net losses recognized on debt securities | (10) | 0 | 0 |
| Gains on strategic investments, net | <u><u>\$ 542</u></u> | <u><u>\$ 19</u></u> | <u><u>\$ 31</u></u> |

Net gains recognized in fiscal 2019 for investments still held as of January 31, 2019 were \$464 million. This excludes recognized gains on the sale of our equity and debt securities for fiscal 2019 of \$78 million.

In fiscal 2019 the Company adopted ASU 2016-01 which requires all fair value adjustments of its publicly traded and privately held equity investments to be recorded through the statement of operations. Prior to fiscal 2019, publicly held equity securities were recorded at fair value with unrealized changes in fair value recorded through other comprehensive income. Investments in privately held equity securities in which the Company did not have a controlling interest or significant influence were accounted for using the cost method of accounting, measured at cost less other-than-temporary impairment.

4. Derivatives

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

| | As of | |
|--|-------------------------|-------------------------|
| | January 31, 2019 | January 31, 2018 |
| Notional amount of foreign currency derivative contracts | \$ 4,496 | \$ 1,871 |
| Fair value of foreign currency derivative contracts | 25 | 12 |

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

| | Balance Sheet Location | As of | |
|---------------------------------------|---|-------------------------|-------------------------|
| | | January 31, 2019 | January 31, 2018 |
| Foreign currency derivative contracts | Prepaid expenses and other current assets | \$ 42 | \$ 18 |

Gains (losses) on derivative instruments not designated as hedging instruments recorded in other income in the consolidated statements of operations during fiscal 2019, 2018 and 2017, respectively, are summarized below (in millions):

| | Fiscal Year Ended January 31, | | |
|---------------------------------------|--------------------------------------|-------------|-------------|
| | 2019 | 2018 | 2017 |
| Foreign currency derivative contracts | \$ 34 | \$ 15 | (86) |

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 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 |

(1) Included in "cash and cash equivalents" in the accompanying consolidated balance sheet as of January 31, 2019, in addition to \$1.1 billion of cash.

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

The following table presents information about the Company's assets that are measured at fair value as of January 31, 2018 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, 2018 |
|---|--|---|---|--------------------------------|
| Cash equivalents (1): | | | | |
| Time deposits | \$ 0 | \$ 543 | \$ 0 | \$ 543 |
| Money market mutual funds | 1,389 | 0 | 0 | 1,389 |
| Marketable securities: | | | | |
| Corporate notes and obligations | 0 | 1,217 | 0 | 1,217 |
| U.S. treasury securities | 0 | 194 | 0 | 194 |
| Mortgage backed obligations | 0 | 99 | 0 | 99 |
| Asset backed securities | 0 | 250 | 0 | 250 |
| Municipal securities | 0 | 52 | 0 | 52 |
| Foreign government obligations | 0 | 86 | 0 | 86 |
| U.S. agency obligations | 0 | 19 | 0 | 19 |
| Commercial paper | 0 | 11 | 0 | 11 |
| Covered bonds | 0 | 50 | 0 | 50 |
| Strategic investments: | | | | |
| Publicly held equity securities | 24 | 0 | 0 | 24 |
| Foreign currency derivative contracts (2) | 0 | 18 | 0 | 18 |
| Total assets | \$ 1,413 | \$ 2,539 | \$ 0 | \$ 3,952 |

(1) Included in "cash and cash equivalents" in the accompanying consolidated balance sheet as of January 31, 2018, in addition to \$611 million of cash.

(2) Included in "prepaid expenses and other current assets" in the accompanying consolidated balance sheet as of January 31, 2018.

Strategic investments measured and record 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 only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the Company's non-marketable equity securities during the period, the Company classifies these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

The Company classified privately held debt and equity securities and equity method investments as Level 3. The Company's privately held debt and equity securities and equity method investments amounted to \$866 million as of January 31, 2019 and \$653 million as of January 31, 2018.

6. Property and Equipment

Property and Equipment

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

| | As of | |
|--|------------------|------------------|
| | January 31, 2019 | January 31, 2018 |
| Land | \$ 184 | \$ 184 |
| Buildings and building improvements | 629 | 626 |
| Computers, equipment and software | 1,735 | 1,629 |
| Furniture and fixtures | 188 | 139 |
| Leasehold improvements | 1,098 | 825 |
| Property and equipment, gross | 3,834 | 3,403 |
| Less accumulated depreciation and amortization | (1,783) | (1,456) |
| Property and equipment, net | \$ 2,051 | \$ 1,947 |

Depreciation and amortization expense totaled \$411 million, \$373 million and \$323 million during fiscal 2019, 2018 and 2017 respectively.

Computers, equipment and software at January 31, 2019 and January 31, 2018 included a total of \$671 million and \$709 million acquired under capital lease agreements, respectively. Accumulated amortization relating to computers, equipment and software acquired under capital leases totaled \$480 million and \$450 million, respectively, at January 31, 2019 and January 31, 2018. Amortization of assets acquired under capital leases is included in depreciation and amortization expense.

7. Business Combinations

Fiscal Year 2019

Datorama

In August 2018, the Company acquired all outstanding stock of Datorama, Inc. ("Datorama"), which provides a platform for enterprises, agencies and publishers to integrate data across marketing channels and data sources. The Company has included the financial results of Datorama, which are not material, in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were approximately \$3 million and recorded in general and administrative expense. The acquisition date fair value of the consideration transferred for Datorama was approximately \$766 million, which consisted of the following (in millions):

| | Fair Value |
|---|------------|
| Cash | \$ 136 |
| Common stock issued | 537 |
| Fair value of stock options and restricted stock awards assumed | 93 |
| Total | \$ 766 |

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 0.4133 was applied to convert Datorama's outstanding equity awards for Datorama's common stock into equity awards for shares of the Company's common stock.

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 | \$ 21 |
| Accounts receivable | 9 |
| Other current and noncurrent assets | 3 |
| Intangible assets | 202 |
| Goodwill | 586 |
| Accounts payable, accrued expenses and other liabilities, current and noncurrent | (10) |
| Unearned revenue | (4) |
| Deferred tax liability | (41) |
| Net assets acquired | \$ 766 |

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

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

| | Fair Value | Useful Life |
|--|---------------|-------------|
| Developed technology | \$ 159 | 4 years |
| Customer relationships | 42 | 8 years |
| Other purchased intangible assets | 1 | 1 year |
| Total intangible assets subject to amortization | \$ 202 | |

Developed technology represents the fair value of Datorama's technology. Customer relationships represent the fair values of the underlying relationships with Datorama customers. The goodwill balance is primarily attributed to assembled workforce and expanded market opportunities when integrating Datorama's technology with the Company's other offerings. The goodwill balance is not deductible for U.S. income taxes purposes.

The Company assumed unvested options and restricted stock with a fair value of \$170 million. Of the total consideration, \$93 million was allocated to the purchase consideration and \$77 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

MuleSoft

In May 2018, the Company acquired all outstanding stock of MuleSoft, which provides a platform for building application networks that connect enterprise apps, data and devices, across any cloud and on-premise solution. The Company has included the financial results of MuleSoft in the consolidated financial statements from the date of acquisition. The transaction costs associated with the acquisition were approximately \$24 million and were recorded in general and administrative expense. The acquisition date fair value of the consideration transferred for MuleSoft was approximately \$6.4 billion, which consisted of the following (in millions):

| | Fair Value |
|---|-----------------|
| Cash | \$ 4,860 |
| Common stock issued | 1,178 |
| Fair value of stock options and restricted stock awards assumed | 387 |
| Total | \$ 6,425 |

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 0.3680 was applied to convert MuleSoft's outstanding equity awards for MuleSoft's common stock into equity awards for shares of the Company's common stock.

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

| | Fair Value |
|--|-------------------|
| Cash and cash equivalents | \$ 57 |
| Marketable securities | 233 |
| Accounts receivable | 69 |
| Contract asset | 122 |
| Other current and noncurrent assets | 29 |
| Acquired customer contract asset, current and noncurrent - intangible asset | 61 |
| Intangible assets | 1,279 |
| Goodwill | 4,816 |
| Accounts payable, accrued expenses and other liabilities, current and noncurrent | (40) |
| Unearned revenue | (57) |
| Deferred tax liability | (144) |
| Net assets acquired | \$ 6,425 |

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

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

| | Fair Value | Useful Life |
|---|-------------------|--------------------|
| Developed technology | \$ 224 | 4 years |
| Customer relationships | 1,046 | 8 years |
| Other purchased intangible assets | 9 | 1 year |
| Total intangible assets subject to amortization | \$ 1,279 | |

Developed technology represents the fair value of MuleSoft's Anypoint technology. Customer relationships represent the fair values of the underlying relationships with MuleSoft customers. The goodwill balance is primarily attributed to the assembled workforce and expanded market opportunities when integrating MuleSoft's Anypoint technology with the Company's other offerings. The goodwill balance is not deductible for U.S. income tax purposes.

The Company assumed unvested options and restricted stock with a fair value of \$824 million. Of the total consideration, \$387 million was allocated to the purchase consideration and \$437 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

The amounts of revenue and pretax loss of MuleSoft included in the Company's consolidated statement of operations from the acquisition date in May 2018 through January 31, 2019 are as follows (in millions):

| | |
|----------------|--------|
| Total revenues | \$ 431 |
| Pretax loss | (286) |

The following pro forma financial information summarizes the combined results of operations for the Company and MuleSoft, as though the companies were combined as of the beginning of the Company's fiscal 2018.

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

| | Fiscal Year Ended January 31, | |
|----------------------|-------------------------------|-----------|
| | 2019 | 2018 |
| Total revenues | \$ 13,366 | \$ 10,875 |
| Pretax income (loss) | 1,012 | (85) |
| Net income (loss) | 987 | (45) |

The pro forma financial information for all periods presented above has been calculated after adjusting the results of MuleSoft to reflect the business combination accounting effects resulting from this acquisition, including the amortization of fair value adjustments to unearned revenue, the amortization expense from acquired intangible assets and the stock-based compensation expense for unvested stock options and restricted stock awards assumed as well as the interest expense associated with the Company's issuance of debt prior to the acquisition as though the acquisition occurred as of the beginning of the Company's fiscal year 2018. 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 2018.

The pro forma financial information for fiscal 2019 and 2018 combines the historical results of the Company for fiscal 2019 and 2018, the adjusted historical results of MuleSoft for fiscal 2019 and 2018, due to differences in reporting periods and considering the date the Company acquired MuleSoft, and the effects of the pro forma adjustments listed above. Prior to being acquired, MuleSoft's fiscal year concluded on December 31. Net income for fiscal 2018 above includes a discrete tax benefit of \$136 million, resulting from a partial release of valuation allowance in connection with the acquisition. 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. The deferred tax liability considered the 21 percent corporate tax rate enacted by the Tax Act.

CloudCraze

In April 2018, the Company acquired all outstanding stock of CloudCraze LLC ("CloudCraze"), for consideration consisting of cash and equity awards assumed. CloudCraze is a commerce platform that allows businesses to generate online revenue and scale for growth. CloudCraze delivers interactions across commerce, sales, marketing and service. The Company has included the financial results of CloudCraze in the consolidated financial statements from the date of acquisition, which have not been material to date. The transaction costs associated with the acquisition were not material.

The acquisition date fair value of the consideration transferred for CloudCraze was approximately \$190 million, which consisted of cash and the fair value of stock options and restricted stock awards assumed. The Company recorded approximately \$58 million for developed technology and customer relationships with estimated useful lives of one to seven years. The Company recorded approximately \$134 million of goodwill which is primarily attributed to the assembled workforce and expanded market opportunities from integrating CloudCraze's technology with the Company's other offerings. The goodwill balance is deductible for U.S. income tax purposes. The fair value of current and noncurrent income taxes payable and deferred taxes, may be subject to change as additional information is received and certain tax returns are finalized. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

Fiscal Year 2018

During fiscal 2018, the Company acquired two companies for an aggregate of \$38 million in cash and equity, net of cash acquired, and has included the financial results of these companies in its consolidated financial statements from the dates of acquisition. The transactions were not material to the Company and the costs associated with the acquisitions were not material. The Company accounted for the transactions as business combinations. In allocating the purchase consideration based on estimated fair values, the Company recorded \$3 million of intangible assets and \$35 million of goodwill. The majority of the goodwill balance associated with these business combinations is deductible for U.S. income tax purposes.

Fiscal Year 2017

During fiscal 2017, the Company acquired 13 companies, including the acquisition of Demandware, for an aggregate of \$4.4 billion in cash and equity, net of cash acquired, and has included the financial results of these companies in its consolidated financial statements from the dates of acquisition. The costs associated with the acquisitions were not material. The Company accounted for the transactions as business combinations. In allocating the purchase consideration based on

estimated fair values, the Company recorded \$851 million of intangible assets and \$3.4 billion of goodwill. The majority of the goodwill balance associated with these business combinations is not deductible for U.S. income tax purposes.

8. 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) |
|-------------------------------|--------------------------|--------------------------------|-----------------|--------------------------|------------------------------|-------------------|------------------------|-----------------|--|--|
| | Jan 31, 2018 | Additions and retirements, net | Jan 31, 2019 | Jan 31, 2018 | Expense and retirements, net | Jan 31, 2019 | Jan 31, 2018 | Jan 31, 2019 | | |
| Acquired developed technology | \$ 1,027 | \$ 402 | \$ 1,429 | \$ (677) | \$ (212) | \$ (889) | \$ 350 | \$ 540 | | 2.9 |
| Customer relationships | 831 | 1,107 | 1,938 | (359) | (201) | (560) | 472 | 1,378 | | 6.3 |
| Other (1) | 53 | (1) | 52 | (48) | 1 | (47) | 5 | 5 | | 2.5 |
| Total | <u>\$ 1,911</u> | <u>\$ 1,508</u> | <u>\$ 3,419</u> | <u>\$ (1,084)</u> | <u>\$ (412)</u> | <u>\$ (1,496)</u> | <u>\$ 827</u> | <u>\$ 1,923</u> | | <u>5.3</u> |

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

Amortization of intangible assets resulting from business combinations for fiscal 2019, 2018 and 2017 was \$447 million, \$287 million and \$226 million, respectively.

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

Fiscal Period:

| | |
|----------------------------|-----------------|
| Fiscal 2020 | \$ 472 |
| Fiscal 2021 | 414 |
| Fiscal 2022 | 351 |
| Fiscal 2023 | 211 |
| Fiscal 2024 | 148 |
| Thereafter | 327 |
| Total amortization expense | <u>\$ 1,923</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 January 31, 2019 and January 31, 2018 were \$121 million and \$159 million, respectively, which is included in "Other assets" on the 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, 2017 | \$ 7,264 |
| Acquisitions | 35 |
| Adjustments of acquisition date fair values, including the effect of foreign currency translation | 15 |
| Balance as of January 31, 2018 | \$ 7,314 |
| CloudCraze acquisition | 134 |
| MuleSoft acquisition | 4,816 |
| Datorama acquisition | 586 |
| Adjustments of acquisition date fair values, including the effect of foreign currency translation | 1 |
| Balance as of January 31, 2019 | \$ 12,851 |

9. Debt

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

| Instrument | Date of issuance | Maturity date | Effective interest rate for fiscal 2019 | January 31, 2019 | January 31, 2018 |
|--------------------------------|------------------|---------------|---|------------------|------------------|
| 2021 Term Loan | May 2018 | May 2021 | 3.05% | \$ 499 | \$ 0 |
| 2023 Senior Notes | April 2018 | April 2023 | 3.26% | 993 | 0 |
| 2028 Senior Notes | April 2018 | April 2028 | 3.70% | 1,488 | 0 |
| 2019 Term Loan | July 2016 | July 2019 | 2.96% (1) | 0 | 498 |
| Loan assumed on 50 Fremont | February 2015 | June 2023 | 3.75% | 196 | 199 |
| 0.25% Convertible Senior Notes | March 2013 | April 2018 | 2.53% (2) | 0 | 1,023 |
| Total carrying value of debt | | | | 3,176 | 1,720 |
| Less current portion of debt | | | | (3) | (1,025) |
| Total noncurrent debt | | | | \$ 3,173 | \$ 695 |

(1) The Company repaid the 2019 Term Loan in full in January 2019.

(2) From February 1, 2018 through maturity, the effective interest rate for the Convertible Senior Notes was 2.53%.

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

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

Fiscal period:

| | | |
|-----------------------------|----|-------|
| Fiscal 2020 | \$ | 3 |
| Fiscal 2021 | | 4 |
| Fiscal 2022 | | 504 |
| Fiscal 2023 | | 4 |
| Fiscal 2024 | | 1,183 |
| Thereafter | | 1,500 |
| Total principal outstanding | \$ | 3,198 |

2021 Term Loan

In April 2018, the Company entered into a new three-year unsecured term loan with Bank of America, N.A. and certain other institutional lenders for \$500 million ("2021 Term Loan") that matures in May 2021. The net proceeds of the 2021 Term Loan were for the purpose of partially funding the acquisition of MuleSoft and were received in May 2018. As of January 31, 2019, the noncurrent outstanding principal portion was \$500 million.

2023 Senior Notes

In April 2018, the Company issued an aggregate principal amount of \$1.0 billion in senior notes that will mature in April 2023 and bear interest at a fixed rate of 3.25 percent per annum ("2023 Senior Notes"). The interest is payable semi-annually in April and October of each year, commencing in October 2018. The Company incurred issuance costs of \$8 million in connection with the 2023 Senior Notes that, along with the debt discount upon issuance, are being amortized to interest expense over the term of the 2023 Senior Notes. The 2023 Senior Notes are unsecured and rank equally in right of payment with all of the other senior unsecured indebtedness. As of January 31, 2019, the noncurrent outstanding principal portion was \$1.0 billion.

2028 Senior Notes

In April 2018, the Company issued an aggregate principal amount of \$1.5 billion in senior notes that will mature in April 2028 and bear interest at a fixed rate of 3.70 percent per annum ("2028 Senior Notes"). The interest is payable semi-annually in April and October of each year, commencing in October 2018. The Company incurred issuance costs of \$13 million in connection with the 2028 Senior Notes that, along with the debt discount upon issuance, are being amortized to interest expense over the term of the 2028 Senior Notes. The 2028 Senior Notes are unsecured and rank equally in right of payment with all of the other senior unsecured indebtedness. As of January 31, 2019, the noncurrent outstanding principal portion was \$1.5 billion.

2019 Term Loan

In July 2016, the Company entered into a credit agreement (“Term Loan Credit Agreement”) with Bank of America, N.A. and certain other institutional lenders for a \$500 million term loan facility (“2019 Term Loan”) that matures in July 2019. In January 2019, the Company repaid the 2019 Term Loan in full and the Term Loan Credit Agreement was terminated.

Loan Assumed on 50 Fremont

The Company assumed a \$200 million loan with the acquisition of 50 Fremont in San Francisco, California (“Loan”). The Loan bears an interest rate of 3.75 percent per annum and is due in June 2023. Starting in July 2018, principal and interest payments are required, with the remaining principal due at maturity. As of January 31, 2019, the current and noncurrent outstanding principal portion was \$3 million and \$195 million, respectively. The Loan can be prepaid at any time subject to a yield maintenance fee.

Convertible Senior Notes

In March 2013, the Company issued at par value \$1.15 billion of 0.25% convertible senior notes (the “0.25% Senior Notes”, or “Notes”) due in April 2018. The Notes matured in April 2018 and the Company repaid \$1.0 billion in cash of principal balance of the Notes during the Company’s first quarter of fiscal 2019. The Company also distributed approximately 7 million shares of the Company’s common stock to noteholders during fiscal 2019, which represents the conversion value in excess of the principal amount.

To minimize the impact of potential economic dilution upon conversion of the Notes, also in March 2013, the Company entered into convertible note hedge transactions with respect to its common stock. The Company received approximately 7 million shares of the Company’s common stock from the exercise of the notes hedges related to the 0.25% Senior Notes during this same period.

Warrants

In March 2013, the Company entered into a warrants transaction (“0.25% Warrants”), whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, shares of the Company’s common stock. The 0.25% Warrants were separate transactions entered into by the Company and were not part of the terms of the 0.25% Senior Notes or the related note hedges. In June 2018, the Company entered into agreements with each of the 0.25% Warrants counterparties to amend and early settle the 0.25% Warrants prior to their scheduled expiration beginning in July 2018. As a result of this amendment, during fiscal 2019, the Company issued, in the aggregate, approximately 6 million shares to the counterparties to settle, via a net share settlement, the entirety of the 0.25% Warrants, which increased the shares used in computing basic net income per share by 4 million for fiscal 2019.

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 January 31, 2019. The Company continues to pay a commitment fee on the available amount of the Credit Facility, which is included within interest expense in the Company’s consolidated statement of operations.

Interest Expense on Debt

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

| | Fiscal Year Ended January 31, | | |
|-------------------------------------|-------------------------------|--------------|--------------|
| | 2019 | 2018 | 2017 |
| Contractual interest expense | \$ 106 | \$ 23 | \$ 19 |
| Amortization of debt issuance costs | 16 | 5 | 6 |
| Amortization of debt discount | 4 | 26 | 25 |
| | <u>\$ 126</u> | <u>\$ 54</u> | <u>\$ 50</u> |

10. Stockholders' Equity

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

As of January 31, 2019 and January 31, 2018, \$76 million and \$63 million, respectively, was withheld on behalf of employees for future purchases under the ESPP and is recorded in accrued compensation.

From February 1, 2006 through July 2013, options issued had a term of five years. After July 2013, options issued have a term of seven years.

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

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|---------------|---------------|
| | 2019 | 2018 | 2017 |
| Stock Options | | | |
| Volatility | 27.0 - 28.0 % | 28.0 - 31.4 % | 31.4 - 32.3 % |
| Estimated life | 3.5 years | 3.5 years | 3.5 years |
| Risk-free interest rate | 2.5 - 3.0 % | 1.4 - 2.3 % | 0.9 - 1.6 % |
| Weighted-average fair value per share of grants | \$ 28.89 | \$ 22.71 | \$ 19.13 |
| ESPP | | | |
| Volatility | 22.5 - 25.5 % | 21.3 - 27.6 % | 28.2 - 35.2 % |
| Estimated life | 0.75 years | 0.75 years | 0.75 years |
| Risk-free interest rate | 2.0 - 2.6 % | 1.1 - 1.7 % | 0.5 - 1.0 % |
| Weighted-average fair value per share of grants | \$ 32.90 | \$ 23.64 | \$ 20.18 |

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

The estimated life for the stock options was based on an analysis of historical exercise activity. The risk-free interest rate is based on the rate for a U.S. government security with the same estimated life at the time of the option grant and the stock purchase rights.

The estimated forfeiture rate applied is based on historical forfeiture rates. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option pricing model.

In fiscal 2016 and fiscal 2017, the Company granted performance-based restricted stock unit awards to the Chairman of the Board and Chief Executive Officer and certain executive officers, including the Chairman of the Board and Chief Executive Officer, respectively. In fiscal 2019, the Company granted additional performance-based restricted stock unit awards to certain employees, including the Chairman of the Board and Co-Chief Executive Officer and other senior executives. The performance-based restricted stock unit awards are subject to vesting based on a performance-based condition and a service-based condition. At the end of the three-year service period, based on the Company's share price performance, these performance-based restricted stock units will vest in a percentage of the target number of shares between 0 and 200%, depending on the extent the performance condition is achieved.

Stock option activity, excluding the ESPP is as follows:

| | Shares Available for Grant (in thousands) | Outstanding Stock Options (in thousands) | Weighted-Average Exercise Price | Options Outstanding |
|--|---|--|---------------------------------|---|
| | | | | Aggregate Intrinsic Value (in millions) |
| Balance as of January 31, 2018 | 50,313 | 21,735 | \$ 65.96 | |
| Increase in shares authorized: | | | | |
| 2013 Equity Incentive Plan | 40,000 | 0 | 0.00 | |
| Assumed equity plans | 8,357 | 0 | 0.00 | |
| Options granted under all plans | (13,846) | 13,846 | 69.04 | |
| Restricted stock activity | (19,937) | 0 | 0.00 | |
| Performance-based restricted stock units | (1,911) | 0 | 0.00 | |
| Stock grants to board and advisory board members | (146) | 0 | 0.00 | |
| Exercised | 0 | (8,495) | 44.40 | |
| Plan shares expired | (163) | 0 | 0.00 | |
| Canceled | 1,140 | (1,140) | 77.59 | |
| Balance as of January 31, 2019 | <u>63,807</u> | <u>25,946</u> | \$ 74.15 | \$ 2,019 |
| Vested or expected to vest | | <u>24,463</u> | \$ 72.65 | \$ 1,941 |
| Exercisable as of January 31, 2019 | | <u>12,770</u> | \$ 55.58 | \$ 1,231 |

The total intrinsic value of the options exercised during fiscal 2019, 2018 and 2017 was \$784 million, \$373 million and \$224 million, respectively. The intrinsic value is the difference between the current market value of the stock and the exercise price of the stock option.

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

As of January 31, 2019, options to purchase 12.8 million shares were vested at a weighted average exercise price of \$55.58 per share and had a remaining weighted-average contractual life of approximately 4 years. The total intrinsic value of these vested options as of January 31, 2019 was \$1.2 billion.

During fiscal 2019, the Company recognized stock-based expense related to its equity plans for employees and non-employee directors of \$1.3 billion. As of January 31, 2019, the aggregate stock compensation remaining to be amortized to costs and expenses was approximately \$2.5 billion. The Company will amortize this stock compensation balance as follows: \$1.2 billion during fiscal 2020; \$0.8 billion during fiscal 2021; \$453 million during fiscal 2022; \$108 million during fiscal 2023 and \$8 million during fiscal 2024. The expected amortization reflects only outstanding stock awards as of January 31, 2019 and assumes no forfeiture activity.

The aggregate stock compensation remaining to be amortized to costs and expenses will be recognized over a weighted average period of 2 years.

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

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|-----------------------------------|---|---------------------------------|---------------------------------|---------------------------------|--|
| | Number Outstanding (in thousands) | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number of Shares (in thousands) | Weighted-Average Exercise Price | |
| \$0.03 to \$21.54 | 3,664 | 6.3 | \$ 11.91 | 2,273 | \$ 9.77 | |
| \$22.12 to \$59.34 | 6,119 | 2.9 | 53.60 | 5,805 | 54.77 | |
| \$59.37 to \$75.01 | 995 | 5.2 | 68.37 | 442 | 70.65 | |
| \$75.57 | 3,920 | 4.8 | 75.57 | 1,627 | 75.57 | |
| \$76.48 to \$82.08 | 3,634 | 3.9 | 80.85 | 2,391 | 80.86 | |
| \$82.55 to \$113.00 | 954 | 5.6 | 98.03 | 232 | 95.36 | |
| \$118.04 to \$155.52 | 6,660 | 6.2 | 120.23 | 0 | 0.00 | |
| | <u>25,946</u> | 4.9 | \$ 74.15 | <u>12,770</u> | \$ 55.58 | |

Restricted stock activity is as follows:

| | Restricted Stock Outstanding | | |
|---|-------------------------------|---|---|
| | Outstanding (in thousands) | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value (in millions) |
| Balance as of January 31, 2018 | 19,018 | \$ 77.85 | |
| Granted - restricted stock units and awards | 12,221 | 122.47 | |
| Granted - performance-based stock units | 541 | 112.48 | |
| Canceled | (1,990) | 91.35 | |
| Vested and converted to shares | (8,631) | 77.63 | |
| Balance as of January 31, 2019 | 21,159 | \$ 103.33 | \$ 3,215 |
| Expected to vest | 18,491 | | \$ 2,810 |

The restricted stock, which upon vesting entitles the holder to one share of common stock for each share of restricted stock, has an exercise price of \$0.001 per share, which is equal to the par value of the Company's common stock, and generally vests over four years. The total fair value of shares vested during fiscal 2019, 2018 and 2017 was \$1.1 billion, \$953 million and \$640 million respectively.

Common Stock

The following number of shares of common stock were reserved and available for future issuance at January 31, 2019 (in thousands):

| | |
|---|---------|
| Options outstanding | 25,946 |
| Restricted stock awards and units and performance-based stock units outstanding | 21,159 |
| Stock available for future grant or issuance: | |
| 2013 Equity Incentive Plan | 63,342 |
| 2014 Inducement Plan | 352 |
| Acquired equity plans | 113 |
| Amended and Restated 2004 Employee Stock Purchase Plan | 4,067 |
| | 114,979 |

During fiscal years 2019, 2018 and 2017, certain board members received stock grants totaling 39,350, 57,832 and 62,632 shares of common stock, respectively for board services pursuant to the terms described in the 2013 Plan and previously, the 2004 Outside Directors Stock Plan. The expense related to these awards, which was expensed immediately at the time of the issuance, totaled \$5 million for each year in fiscal 2019, 2018 and 2017, respectively.

Preferred Stock

The Company's board of directors has the authority, without further action by stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series. The Company's board of directors may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the Company's common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock, or delaying or preventing a change in control. As of January 31, 2019 and 2018, no shares of preferred stock were outstanding.

11. Income Taxes

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

| | Fiscal Year Ended January 31, | | |
|----------|-------------------------------|---------------|---------------|
| | 2019 | 2018 | 2017 |
| Domestic | \$ 839 | \$ 160 | \$ 151 |
| Foreign | 144 | 260 | 28 |
| | <u>\$ 983</u> | <u>\$ 420</u> | <u>\$ 179</u> |

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

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|--------------|-----------------|
| | 2019 | 2018 | 2017 |
| Current: | | | |
| Federal | \$ 0 | \$ (7) | \$ 0 |
| State | 39 | 2 | 5 |
| Foreign | 117 | 85 | 72 |
| Total | 156 | 80 | 77 |
| Deferred: | | | |
| Federal | (248) | (2) | (183) |
| State | (37) | (14) | (26) |
| Foreign | 2 | (4) | (12) |
| Total | (283) | (20) | (221) |
| Provision for (benefit from) income taxes | <u>\$ (127)</u> | <u>\$ 60</u> | <u>\$ (144)</u> |

In fiscal 2019, the Company released a portion of its valuation allowance related to federal and state deferred tax assets, which was partially offset with the increase in unrecognized tax benefits. In addition, the Company recorded current tax expense for profitable jurisdictions outside of the United States.

In fiscal 2018, the Company recorded tax expense primarily from profitable jurisdictions outside of the United States. In fiscal 2017, the Company recorded a net tax benefit of \$144 million. The most significant component of this tax amount was the benefit of \$210 million resulting from a partial release of its valuation allowance in connection with the acquisition of Demandware. The net deferred tax liability from acquisitions provided an additional source of income to support the realizability of the Company's pre-existing deferred tax assets and, as a result, the Company released a portion of its valuation allowance. The tax benefit associated with the release of the valuation allowance was partially offset by income taxes in profitable jurisdictions outside the United States. In addition, as a result of adopting Accounting Standards Update No. 2016-09, "Stock Compensation (Topic 718): Improvements to Employee Shared Based Payment Accounting" ("ASU 2016-09") and the Company's valuation allowance, it did not record significant current tax expense for the United States.

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

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|--------------|-----------------|
| | 2019 | 2018 | 2017 |
| U.S. federal taxes at statutory rate (1) | \$ 206 | \$ 142 | \$ 63 |
| State, net of the federal benefit | 79 | (21) | 7 |
| Effects of non-U.S. operations | 379 | (35) | 62 |
| Tax credits | (132) | (107) | (50) |
| Non-deductible expenses | 63 | 53 | 48 |
| Excess tax benefits related to shared based compensation | (137) | (135) | (95) |
| Effect of U.S. tax law change | 43 | 126 | 0 |
| Change in valuation allowance | (612) | 42 | (179) |
| Other, net | (16) | (5) | 0 |
| Provision for (benefit from) income taxes | <u>\$ (127)</u> | <u>\$ 60</u> | <u>\$ (144)</u> |

(1) The Company's statutory rates were 21.0 percent and 33.8 percent for fiscal 2019 and fiscal 2018, respectively, which reflected the corporate tax rate reduction effective January 1, 2018 due to the Tax Act.

In December 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law, significantly changing income tax law that affects U.S. corporations. In fiscal 2018, due to the timing of the enactment and the complexity involved in applying the Tax Act, the Company recorded a provisional tax expense of \$126 million associated with the re-measurement of deferred taxes for the corporate rate reduction, which was offset by a reduction in valuation allowance of \$136 million. Also, based on the Company's provisional assessment, the transition tax had no impact to its income tax provision. In the fourth quarter of fiscal 2019, the Company completed its analysis, based on the guidance, interpretations and data available, and recorded additional expense of \$43 million. The adjustment was primarily due to the reversal of a foreign tax credit benefit associated with a one-time distribution.

On January 22, 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The Company has elected to recognize any potential GILTI obligation as an expense in the period it is incurred.

The Company receives certain tax incentives in Singapore in the form of reduced tax rates, which will expire in fiscal 2020. The income tax benefits resulting from the reduced tax rates were immaterial in fiscal 2019, 2018, and 2017.

Deferred Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

| | As of January 31, | |
|---|-------------------|--------------|
| | 2019 | 2018 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 173 | \$ 617 |
| Deferred stock-based expense | 145 | 79 |
| Tax credits | 605 | 497 |
| Deferred rent expense | 71 | 59 |
| Accrued liabilities | 138 | 113 |
| Basis difference on strategic and other investments | 0 | 41 |
| Financing obligation | 102 | 97 |
| Deferred intercompany transactions | 0 | 90 |
| Other | 22 | 15 |
| Total deferred tax assets | <u>1,256</u> | <u>1,608</u> |
| Less valuation allowance | (205) | (810) |
| Deferred tax assets, net of valuation allowance | <u>1,051</u> | <u>798</u> |
| Deferred tax liabilities: | | |
| Deferred commissions | (347) | (334) |
| Purchased intangibles | (382) | (205) |
| Depreciation and amortization | (145) | (166) |
| Basis difference on strategic and other investments | (56) | 0 |
| Deferred revenue | (17) | (82) |
| Other | 0 | (5) |
| Total deferred tax liabilities | <u>(947)</u> | <u>(792)</u> |
| Net deferred tax assets | <u>\$ 104</u> | <u>\$ 6</u> |

At January 31, 2019, for federal income tax purposes, the Company had net operating loss carryforwards of approximately \$2.1 billion, which expire in fiscal 2021 through fiscal 2038, federal research and development tax credits of approximately \$381 million, which expire in fiscal 2020 through fiscal 2039, foreign tax credits of approximately \$88 million, which expire in fiscal 2020 through fiscal 2029, and alternative minimum tax credits of \$1 million, which the Company expects to receive as a refund under the Tax Act. For California income tax purposes, the Company had net operating loss

carryforwards of approximately \$765 million which expire beginning in fiscal 2020 through fiscal 2039, California research and development tax credits of approximately \$281 million, which do not expire, and \$9 million of enterprise zone tax credits, which expire in fiscal 2024 through fiscal 2026. For other states' income tax purposes, the Company had net operating loss carryforwards of approximately \$1.0 billion, which expire beginning in fiscal 2021 through fiscal 2039 and tax credits of approximately \$41 million, which expire beginning in fiscal 2021 through fiscal 2033. Utilization of the Company's net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company had a valuation allowance of \$205 million and \$810 million as of January 31, 2019 and January 31, 2018 respectively. The Company regularly assesses the realizability of its deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some or all of its deferred tax assets will not be realized. The Company evaluates and weighs all available positive and negative evidence such as historic results, future reversals of existing deferred tax liabilities, projected future taxable income, as well as prudent and feasible tax-planning strategies. The assessment requires significant judgment and is performed in each of the applicable jurisdictions. The Company demonstrated sustained profitability evidenced by three consecutive years of positive earnings as well as forecasted continuing profitability at the worldwide and U.S. jurisdictional levels. As a result, the Company determined that there was sufficient positive evidence to release a portion of its valuation allowance related to federal and state deferred tax assets, resulting in a tax benefit of \$612 million during fiscal 2019. The valuation allowance at the end of January 31, 2019 was primarily related to net operating loss and tax credits in certain state jurisdictions. The Company will continue to evaluate the need for valuation allowances for its deferred tax assets.

Tax Benefits Related to Stock-Based Compensation

The total income tax benefit in the accompanying consolidated statements of operations related to stock-based awards was \$236 million, \$265 million and \$229 million for fiscal 2019, 2018 and 2017, respectively. For fiscal 2018 and 2017, majority of the tax benefit was not recognized as a result of the valuation allowance.

Unrecognized Tax Benefits and Other Considerations

The Company records liabilities related to its uncertain tax positions. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company had gross unrecognized tax benefits of \$852 million, \$304 million, and \$231 million as of January 31, 2019, 2018, and 2017 respectively.

A reconciliation of the beginning and ending balance of total unrecognized tax benefits for fiscal years 2019, 2018 and 2017 is as follows (in millions):

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|---------------|---------------|
| | 2019 | 2018 | 2017 |
| Beginning of period | \$ 304 | \$ 231 | \$ 173 |
| Tax positions taken in prior period: | | | |
| Gross increases | 474 | 31 | 18 |
| Gross decreases | (2) | (6) | (1) |
| Tax positions taken in current period: | | | |
| Gross increases | 107 | 51 | 58 |
| Settlements | (15) | (1) | (16) |
| Lapse of statute of limitations | (10) | (8) | (1) |
| Currency translation effect | (6) | 6 | 0 |
| End of period | <u>\$ 852</u> | <u>\$ 304</u> | <u>\$ 231</u> |

During fiscal 2019, the Company reported an increase of approximately \$548 million in its unrecognized tax benefits primarily for tax issues related to the integrations of certain historical acquisitions as a result of recent developments of on-going audits and court cases. For fiscal 2019, total unrecognized tax benefits in an amount of \$631 million, if recognized, would reduce income tax expense and the Company's effective tax rate. For fiscal 2018 and 2017, total unrecognized tax benefits in an amount of \$77 million and \$73 million, respectively, if recognized, would reduce income tax expense and the Company's effective tax rate after considering the impact of the change in valuation allowance in the U.S.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the income tax provision. The Company recorded an immaterial amount for penalties and interest for each of fiscal 2019, 2018 and 2017. The balance in the non-current income tax payable related to penalties and interest was \$10 million, \$6 million and \$7 million as of January 31, 2019, 2018 and 2017, respectively.

Certain prior year tax returns are currently being examined by various taxing authorities in countries including the United States, France, United Kingdom and Germany. In March 2017, the Company received the final notice of proposed adjustments primarily related to transfer pricing issues from the IRS. The Company is currently appealing the IRS proposed adjustments. The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. As the outcome of the tax audits cannot be predicted with certainty, if any issues addressed in the Company's tax audits are resolved in a manner inconsistent with management's expectations, the Company could adjust its provision for income taxes in the future.

The Company has operations and taxable presence in multiple jurisdictions in the U.S. and outside of the U.S. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions around the world. The Company currently considers U.S. federal and state, Canada, Japan, Australia, Germany, France and the United Kingdom to be major tax jurisdictions. The Company's U.S. federal and state tax returns since February 1999, which was the inception of the Company, remain open to examination. With some exceptions, tax years prior to fiscal 2016 in jurisdictions outside of U.S. are generally closed. However, in Japan and United Kingdom, the Company is no longer subject to examinations for years prior to fiscal 2015 and fiscal 2017, respectively.

The Company anticipates it is reasonably possible that a decrease of unrecognized tax benefits up to approximately \$3 million may occur in the next 12 months, as the applicable statutes of limitations lapse.

12. 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):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|--------|--------|
| | 2019 | 2018 | 2017 |
| Numerator: | | | |
| Net income | \$ 1,110 | \$ 360 | \$ 323 |
| Denominator: | | | |
| Weighted-average shares outstanding for basic earnings per share | 751 | 715 | 688 |
| Effect of dilutive securities: | | | |
| Convertible senior notes which matured in April 2018 | 1 | 5 | 2 |
| Employee stock awards | 21 | 14 | 10 |
| Warrants | 2 | 1 | 0 |
| Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share | 775 | 735 | 700 |

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):

| | Fiscal Year Ended January 31, | | |
|-----------------------|-------------------------------|------|------|
| | 2019 | 2018 | 2017 |
| Employee stock awards | 4 | 7 | 11 |
| Warrants | 0 | 0 | 17 |

13. Commitments

Letters of Credit

As of January 31, 2019, the Company had a total of \$92 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through December 2030.

Leases

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

As of January 31, 2019, the future minimum lease payments under non-cancelable operating and capital leases are as follows (in millions):

| | Capital Leases (1) | Operating Leases (2) | Financing Obligation - Leased Facility (3) |
|--|-----------------------|-------------------------|---|
| Fiscal Period: | | | |
| Fiscal 2020 | \$ 200 | \$ 778 | \$ 22 |
| Fiscal 2021 | 0 | 658 | 23 |
| Fiscal 2022 | 0 | 466 | 23 |
| Fiscal 2023 | 0 | 369 | 24 |
| Fiscal 2024 | 0 | 314 | 24 |
| Thereafter | 0 | 1,610 | 163 |
| Total minimum lease payments | <u>200</u> | <u>\$ 4,195</u> | <u>\$ 279</u> |
| Less: amount representing interest | <u>(9)</u> | | |
| Present value of capital lease obligations | <u><u>\$ 191</u></u> | | |

(1) As of January 31, 2019, the capital lease obligation is included in accrued expenses and other liabilities on the consolidated balance sheet.

(2) Operating leases 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 \$146 million in the next five years and \$79 million thereafter.

(3) Total Financing Obligation - Leased Facility noted above represents the total obligation on the lease agreement including amounts allocated to interest and the implied lease for the land. As of January 31, 2019, \$215 million of the total \$279 million above was recorded to Financing obligation leased facility, of which the current portion is included in accrued expenses and other liabilities and the noncurrent portion is included in other noncurrent liabilities on the consolidated balance sheet.

The table above excludes renewal terms for facilities and certain services that provide the Company with the option to renew. The Company's future contractual obligations would change if the Company exercised these options.

In addition, the table above excludes two separate agreements for office facilities to be constructed. As of January 31, 2019 construction has not commenced on either of these buildings and the timing of completion of construction is unknown. Due to this uncertainty the entire commitment for these two obligations are excluded from the table above. These agreements are as follows:

- approximately 324,000 rentable square feet of office space in a building to be constructed as part of the Company's urban campus in San Francisco, California. As of January 31, 2019, construction has not yet commenced on the building and is dependent on the developer obtaining approval from the City and County of San Francisco. The Company expects to begin occupying the space in fiscal 2024 and the total non-cancelable minimum payments under this agreement are approximately \$480 million over 16 years. Construction has not commenced on the building and is dependent on the developer obtaining approvals from the City and County of San Francisco.
- approximately 603,000 rentable square feet of office space in a building to be constructed in Chicago, Illinois. As of January 31, 2019 construction has not yet commenced on the building. The Company expects to begin occupying the space in fiscal 2022 and the total non-cancelable minimum payments under this agreement are approximately \$475 million over 17 years.

The terms of the lease agreements provide for rental payments on a graduated basis. The Company recognizes rent expense on a straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Of the total operating lease commitment balance of \$4.2 billion, approximately \$3.5 billion is related to facilities space. The remaining commitment amount is related to computer equipment and furniture and fixtures.

Rent expense for fiscal 2019, 2018 and 2017 was \$365 million, \$285 million and \$226 million, respectively.

The Company has entered into various contractual commitments with infrastructure service providers for a total commitment of \$2.0 billion. The Company paid \$156 million in connection with these agreements during fiscal 2019. As of January 31, 2019 the total remaining commitment is approximately \$1.8 billion and \$264 million is due in the next fiscal year.

14. Employee Benefit Plans

The Company has a 401(k) plan covering all eligible employees in the United States and a Registered Retirement Savings plan covering all eligible employees in Canada. Since January 1, 2006, the Company has been contributing to the plans. Total Company contributions during fiscal 2019, 2018 and 2017, were \$106 million, \$93 million and \$56 million, respectively.

15. 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 and/or sued by third-parties for alleged infringement of their proprietary rights, including patent infringement.

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

The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel and other information and events pertaining to a particular matter. The outcomes of legal proceedings and other contingencies are, however, inherently unpredictable and subject to significant uncertainties. As a result, the Company is not able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces, and the Company's estimates may not prove to be accurate. In management's opinion, resolution of all current matters is not expected to have a material adverse impact on the Company's consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute 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.

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.

16. Related-Party Transactions

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

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

Since the Foundation's and Salesforce.org's inception, the Company has provided at no charge certain resources to those entities' employees such as office space, furniture, equipment, facilities, services and other resources. The value of these items was approximately \$15 million, \$11 million and \$3 million for fiscal 2019, 2018 and 2017, respectively.

Additionally, the Company allows Salesforce.org to donate subscriptions of the Company's services to other qualified non-profit organizations. The Company also allows Salesforce.org to resell the Company's service to non-profit organizations

and certain education entities. The Company does not charge Salesforce.org for these subscriptions, therefore income from subscriptions sold to non-profit organizations is donated back to the community through charitable grants made by the Foundation and Salesforce.org. The value of the subscriptions sold by Salesforce.org pursuant to the reseller agreement, as amended, was approximately \$253 million, \$183 million and \$112 million for fiscal 2019, 2018 and 2017, respectively.

17. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for fiscal 2019 and 2018 is as follows:

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Fiscal Year |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|--------------------|
| (in millions, except per share data) | | | | | |
| Fiscal 2019 | | | | | |
| Revenues | \$ 3,006 | \$ 3,281 | \$ 3,392 | \$ 3,603 | \$ 13,282 |
| Gross profit | 2,239 | 2,432 | 2,503 | 2,657 | 9,831 |
| Income from operations | 191 | 115 | 92 | 137 | 535 |
| Net income | \$ 344 | \$ 299 | \$ 105 | \$ 362 | \$ 1,110 |
| Basic net income per share | \$ 0.47 | \$ 0.40 | \$ 0.14 | \$ 0.47 | \$ 1.48 |
| Diluted net income per share | \$ 0.46 | \$ 0.39 | \$ 0.13 | \$ 0.46 | \$ 1.43 |
| Fiscal 2018 | | | | | |
| Revenues | \$ 2,397 | \$ 2,577 | \$ 2,701 | \$ 2,865 | \$ 10,540 |
| Gross profit | 1,746 | 1,907 | 1,987 | 2,127 | 7,767 |
| Income from operations | 4 | 84 | 155 | 211 | 454 |
| Net income | \$ 1 | \$ 46 | \$ 107 | \$ 206 | \$ 360 |
| Basic net income per share | \$ 0.00 | \$ 0.06 | \$ 0.15 | \$ 0.28 | \$ 0.50 |
| Diluted net income per share | \$ 0.00 | \$ 0.06 | \$ 0.14 | \$ 0.28 | \$ 0.49 |

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive 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 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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our chief executive officers and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2019 based on the guidelines established in the *Internal Control—Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

In accordance with guidance issued by the Securities and Exchange Commission, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Our management's evaluation of internal control over financial reporting excluded the internal control activities of MuleSoft, Inc. ("MuleSoft"), which we acquired in May 2018, as discussed in Note 7, "Business Combinations," of the Notes to the Consolidated Financial Statements. We have included the financial results of MuleSoft in the consolidated financial statements from the date of acquisition. Total revenues subject to MuleSoft's internal control over financial reporting represented approximately three percent of our consolidated total revenues for the fiscal year ended January 31, 2019. Total net income subject to MuleSoft's internal control over financial reporting represented approximately three percent of our consolidated total net income for the fiscal year ended January 31, 2019. Total assets subject to MuleSoft's internal control over financial reporting represented approximately two percent of our consolidated total assets, excluding acquisition method fair value adjustments, as of January 31, 2019. Total net assets subject to MuleSoft's internal control over financial reporting represented approximately one percent of our consolidated net assets, excluding acquisition method fair value adjustments, as of January 31, 2019.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2019. We reviewed the results of management's assessment with our Audit Committee.

The effectiveness of our internal control over financial reporting as of January 31, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended January 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Inherent Limitations on Effectiveness of Controls

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

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

We have adopted a code of ethics, our Code of Conduct, which applies to all employees, including our principal executive officers, Marc Benioff and Keith Block, principal financial officer, Mark Hawkins, principal accounting officer, Joe Allanson, and all other executive officers. The Code of Conduct is available on our website at <http://investor.salesforce.com/about-us/investor/corporate-governance/>. A copy may also be obtained without charge by contacting Investor Relations, salesforce.com, inc., Salesforce Tower, 415 Mission St, 3rd Fl, San Francisco, California 94105 or by calling (415) 901-7000.

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

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

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

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

3. *Exhibits*: See "Index to Exhibits."

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

(c) *Financial Statement Schedules*.

salesforce.com, inc.

Schedule II Valuation and Qualifying Accounts
(in millions)

| Description | Balance at beginning of year | Additions | Deductions write-offs | Balance at end of year |
|------------------------------------|------------------------------------|-----------|--------------------------|------------------------------|
| Fiscal year ended January 31, 2019 | | | | |
| Allowance for doubtful accounts | \$ 21 | \$ 19 | \$ (18) | \$ 22 |
| Fiscal year ended January 31, 2018 | | | | |
| Allowance for doubtful accounts | \$ 12 | \$ 31 | \$ (22) | \$ 21 |
| Fiscal year ended January 31, 2017 | | | | |
| Allowance for doubtful accounts | \$ 10 | \$ 18 | \$ (16) | \$ 12 |

ITEM 16. 10-K SUMMARY

Omitted at registrant's option.

Index to Exhibits

| Exhibit No. | Exhibit Description | Provided Herewith | Incorporated by Reference | | | |
|-------------|---|-------------------|---------------------------|--------------|---------|-----------|
| | | | Form | SEC File No. | Exhibit | |
| 2.1 | <u>Agreement and Plan of Merger, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp. and MuleSoft, Inc.</u> | | 8-K | 001-32224 | 2.1 | 3/21/2018 |
| 3.1 | <u>Amended and Restated Certificate of Incorporation of salesforce.com, inc.</u> | | 8-K | 001-32224 | 3.1 | 6/13/2018 |
| 3.2 | <u>Amended and Restated Bylaws of salesforce.com, inc.</u> | | 8-K | 001-32224 | 3.1 | 8/8/2018 |
| 4.1 | <u>Specimen Common Stock Certificate</u> | | S-1/A | 333-111289 | 4.2 | 4/20/2004 |
| 4.2 | <u>Indenture, dated April 11, 2018, between the Company and U.S. Bank National Association, as trustee</u> | | 8-K | 001-32224 | 4.1 | 4/11/2018 |
| 4.3 | <u>First Supplemental Indenture, dated April 11, 2018, between the Company and U.S. Bank National Association, as trustee</u> | | 8-K | 001-32224 | 4.2 | 4/11/2018 |
| 4.4 | <u>Form of 2023 Notes</u> | | 8-K | 001-32224 | 4.2 | 4/11/2018 |
| 4.5 | <u>Form of 2028 Notes</u> | | 8-K | 001-32224 | 4.2 | 4/11/2018 |
| 10.1* | <u>Form of Indemnification Agreement between salesforce.com, inc. and its officers and directors</u> | | S-1/A | 333-111289 | 10.1 | 4/20/2004 |
| 10.2* | <u>Amended and Restated 2013 Equity Incentive Plan</u> | | 8-K | 001-32224 | 10.1 | 6/13/2018 |
| 10.3* | <u>Amended and Restated 2004 Employee Stock Purchase Plan</u> | | 8-K | 001-32224 | 10.2 | 6/7/2017 |
| 10.4* | <u>MetaMind, Inc. 2014 Stock Incentive Plan</u> | | S-8 | 333-211510 | 4.1 | 5/20/2016 |
| 10.5* | <u>2014 Inducement Equity Incentive Plan, as amended</u> | | S-8 | 333-213685 | 4.3 | 9/16/2016 |
| 10.6* | <u>Related forms of equity agreements under the Amended and Restated 2014 Inducement Equity Incentive Plan</u> | X | | | | |
| 10.7* | <u>Related forms of equity agreements under the Amended and Restated 2013 Equity Incentive Plan</u> | X | | | | |
| 10.8* | <u>Related forms of equity agreements under the Amended and Restated 2004 Employee Stock Purchase Plan</u> | X | | | | |
| 10.9* | <u>Kokua Bonus Plan, as amended and restated December 5, 2014, effective February 1, 2015</u> | | 10-K | 001-32224 | 10.7 | 3/6/2015 |
| 10.10* | <u>Form of Offer Letter for Executive Officers and schedule of omitted details thereto</u> | | 10-K | 001-32224 | 10.11 | 3/9/2012 |
| 10.11* | <u>Employment Offer Letter, dated May 2, 2013 between salesforce.com, inc. and Keith Block</u> | | 8-K | 001-32224 | 10.1 | 6/11/2013 |
| 10.12* | <u>Employment Offer Letter, dated June 11, 2014, between salesforce.com, inc. and Mark Hawkins</u> | | 8-K | 001-32224 | 10.1 | 6/30/2014 |
| 10.13* | <u>Form of Change of Control and Retention Agreement as entered into with Marc Benioff</u> | | 10-K | 001-32224 | 10.13 | 3/9/2009 |
| 10.14* | <u>Form of Change of Control and Retention Agreement as entered into with non-CEO Executive Officers</u> | | 10-K | 001-32224 | 10.14 | 3/9/2009 |



[Table of Contents](#)

| Exhibit No. | Exhibit Description | Provided Herewith | Incorporated by Reference | | | |
|-------------|---|-------------------|---------------------------|--------------|---------|-------------|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 10.15* | <u>Form of Performance-Based Restricted Stock Unit Agreement for Executive Officers</u> | | 10-K | 001-32224 | 10.17 | 3/6/2017 |
| 10.16 | <u>Office Lease dated as of April 10, 2014 by and between salesforce.com, inc. and Transbay Tower LLC</u> | | 10-Q | 001-32224 | 10.2 | 5/30/2014 |
| 10.17 | <u>Purchase and Sale Agreement, dated November 10, 2014, between salesforce.com, inc. and 50 Fremont Tower, LLC</u> | | 10-Q | 001-32224 | 10.2 | 11/26/2014 |
| 10.18 | <u>Credit Agreement, dated as of July 7, 2016, by and among salesforce.com, inc., the guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent</u> | | 8-K | 001-32224 | 10.1 | 7/11/2016 |
| 10.19 | <u>Amended and Restated Credit Agreement, dated as of July 7, 2016, by and among salesforce.com, inc., the subsidiaries of the Company party thereto as guarantors, the lenders from time to time thereto and Wells Fargo Bank, N.A., as Administrative Agent</u> | | 8-K | 001-32224 | 10.2 | 7/11/2016 |
| 10.20 | <u>Tender and Support Agreement, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp. and Lightspeed Venture Partners Select, L.P., Lightspeed Venture Partners VII, L.P., New Enterprise Associates 15, L.P., New Enterprise Associates 14, L.P., NEA 15 Opportunities Fund, L.P. and NEA Ventures 2013, L.P.</u> | | 8-K | 001-32224 | 10.1 | 3/21/2018 |
| 10.21 | <u>Tender and Support Agreement, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp., Matthew Langdon, Ann Winbald, Gregory Schott, Little Family 1995 TR, Ravi Mhatre, Mhatre Investments LP-Fund 4, Simon Parmett, Robert Horton and Ross Mason.</u> | | 8-K | 001-32224 | 10.2 | 3/21/2018 |
| 10.22 | <u>Second Amended and Restated Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and an Issuing Lender.</u> | | 8-K | 001-32224 | 10.1 | 4/30/2018 |
| 10.23 | <u>Amended and Restated Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Bank of America, N.A., as Administrative Agent.</u> | | 8-K | 001-32224 | 10.2 | 4/30/2018 |
| 10.24 | <u>Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Bank of America, N.A., as Administrative Agent.</u> | | 8-K | 001-32224 | 10.3 | 4/30/2018 |
| 10.25 | <u>Settlement Agreement between salesforce.com, inc. and BNP Paribas, dated June 12, 2018</u> | | 8-K | 001-32224 | 10.1 | 6/15/2018 |

10.26

[Settlement Agreement between
salesforce.com, inc. and Bank of America,
N.A., dated June 12, 2018](#)

8-K

001-32224

10.2

6/15/2018

| Exhibit No. | Exhibit Description | Provided Herewith | Incorporated by Reference | | | |
|-------------|--|-------------------|---------------------------|--------------|---------|-------------|
| | | | Form | SEC File No. | Exhibit | Filing Date |
| 10.27 | <u>Settlement Agreement between salesforce.com, inc. and Morgan Stanley & Co. International plc, dated June 12, 2018</u> | | 8-K | 001-32224 | 10.3 | 6/15/2018 |
| 21.1 | <u>List of Subsidiaries</u> | X | | | | |
| 23.1 | <u>Consent of Independent Registered Public Accounting Firm</u> | X | | | | |
| 24.1 | <u>Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)</u> | X | | | | |
| 31.1 | <u>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</u> | X | | | | |
| 31.2 | <u>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</u> | X | | | | |
| 31.3 | <u>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</u> | X | | | | |
| 32.1 | <u>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</u> | X | | | | |
| 101.INS | XBRL Instance Document | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | | |
| 101.DEF | XBRL Extension Definition | | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | | |

* Indicates a management contract or compensatory plan or arrangement.

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: March 8, 2019

salesforce.com, inc.

By: _____ /S/ MARK J. HAWKINS

Mark J. Hawkins

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

Dated: March 8, 2019

salesforce.com, inc.

By: _____ /S/ JOE ALLANSON

Joe Allanson

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

POWER OF ATTORNEY AND SIGNATURES

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

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

| Signature | Title | Date |
|---|--|---------------|
| /s/ Marc Benioff Marc Benioff | Chairman of the Board and co-Chief Executive Officer (Principal Executive Officer) | March 8, 2019 |
| /s/ Keith Block Keith Block | Director, co-Chief Executive Officer (Principal Executive Officer) | March 8, 2019 |
| /s/ Mark Hawkins Mark Hawkins | President and Chief Financial Officer (Principal Financial Officer) | March 8, 2019 |
| /s/ Joe Allanson Joe Allanson | Executive Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer) | March 8, 2019 |
| /s/ Craig Conway Craig Conway | Director | March 8, 2019 |
| /s/ Parker Harris Parker Harris | Director, Co-Founder and Chief Technology Officer | March 8, 2019 |
| /s/ Alan Hassenfeld Alan Hassenfeld | Director | March 8, 2019 |
| /s/ Neelie Kroes Neelie Kroes | Director | March 8, 2019 |
| /s/ Colin Powell Colin Powell | Director | March 8, 2019 |
| /s/ Sanford R. Robertson Sanford R. Robertson | Director | March 8, 2019 |
| /s/ John V. Roos John V. Roos | Director | March 8, 2019 |
| /s/ Bernard Tyson Bernard Tyson | Director | March 8, 2019 |
| /s/ Robin Washington Robin Washington | Director | March 8, 2019 |
| /s/ Maynard Webb Maynard Webb | Director | March 8, 2019 |
| /s/ Susan Wojcicki Susan Wojcicki | Director | March 8, 2019 |