SALESFORCE COM INC
Form 10-Q
September 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 31, 2011

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 001-32224

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3320693**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

The Landmark @ One Market, Suite 300

San Francisco, California 94105

(Address of principal executive offices)

Telephone Number (415) 901-7000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 31, 2011, there were approximately 135.5 million shares of the Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

salesforce.com, inc.

Condensed Consolidated Balance Sheets

(in thousands)

	July 31, 2011 (unaudited)	January 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 449,794	$ 424,292
Short-term marketable securities	127,582	72,678
Accounts receivable, net	342,397	426,943
Deferred commissions	66,092	67,774
Deferred income taxes	33,915	27,516
Prepaid expenses and other current assets	95,042	55,721
Total current assets	1,114,822	1,074,924
Marketable securities, noncurrent	709,282	910,587
Property and equipment, net	470,070	387,174
Deferred commissions, noncurrent	47,574	48,842
Deferred income taxes, noncurrent	64,219	41,199
Capitalized software, net	198,291	127,987
Goodwill	671,570	396,081
Other assets, net	145,500	104,371
Total assets	$ 3,421,328	$ 3,091,165
Liabilities, temporary equity and stockholders equity		
Current liabilities:		
Accounts payable	$ 22,321	$ 18,106
Accrued expenses and other liabilities	389,853	345,121
Deferred revenue	917,755	913,239
Convertible senior notes, net (Note 2)	484,128	0
Total current liabilities	1,814,057	1,276,466
Convertible senior notes, net	0	472,538
Income taxes payable, noncurrent	34,777	18,481
Long-term lease liabilities and other	46,088	25,487
Deferred revenue, noncurrent	17,511	21,702
Total liabilities	1,912,433	1,814,674
Temporary equity (Note 2)	90,772	0
Stockholders equity:		
Common stock	135	133
Additional paid-in capital	1,243,472	1,098,604

Accumulated other comprehensive income	7,219	6,719
Retained earnings	167,297	171,035
Total stockholders equity	1,418,123	1,276,491
Total liabilities, temporary equity and stockholders equity	$ 3,421,328	$ 3,091,165

See accompanying Notes.

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Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
Revenues:				
Subscription and support	$ 509,279	$ 368,951	$ 982,783	$ 719,663
Professional services and other	36,723	25,421	67,583	51,522
Total revenues	546,002	394,372	1,050,366	771,185
Cost of revenues (1):				
Subscription and support	89,144	48,981	164,387	93,038
Professional services and other	31,766	28,809	59,589	56,333
Total cost of revenues	120,910	77,790	223,976	149,371
Gross profit	425,092	316,582	826,390	621,814
Operating expenses (1):				
Research and development	73,393	42,930	138,685	83,052
Marketing and sales	283,001	182,401	537,472	358,268
General and administrative	84,446	61,569	168,784	117,762
Total operating expenses	440,840	286,900	844,941	559,082
Income (loss) from operations	(15,748)	29,682	(18,551)	62,732
Investment income	5,112	8,735	13,167	16,610
Interest expense	(3,846)	(7,185)	(7,517)	(14,245)
Other expense	(3,231)	(1,765)	(4,031)	(3,738)
Income (loss) before benefit (provision) for income taxes and noncontrolling interest	(17,713)	29,467	(16,932)	61,359
Benefit (provision) for income taxes	13,445	(12,884)	13,194	(24,900)
Consolidated net income (loss)	(4,268)	16,583	(3,738)	36,459
Less: Net income attributable to noncontrolling interest	0	(1,839)	0	(3,970)
Net income (loss) attributable to salesforce.com	$ (4,268)	$ 14,744	$ (3,738)	$ 32,489
Earnings/loss per share- basic and diluted:				
Basic net income (loss) per share attributable to salesforce.com common shareholders	$ (0.03)	$ 0.11	$ (0.03)	$ 0.25
Diluted net income (loss) per share attributable to salesforce.com common shareholders	$ (0.03)	$ 0.11	$ (0.03)	$ 0.24
Shares used in computing basic net income per share	135,093	129,462	134,273	128,747
Shares used in computing diluted net income per share	135,093	134,176	134,273	133,437

(1) Amounts include stock-based expenses, as follows:

Cost of revenues	$ 4,379	$ 3,186	$ 8,030	$ 6,260
Research and development	11,188	4,041	19,027	8,143
Marketing and sales	27,114	12,317	50,901	24,527
General and administrative	11,913	7,071	24,194	14,153

See accompanying Notes.

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Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Operating activities				
Consolidated net income (loss)	$ (4,268)	$ 16,583	$ (3,738)	$ 36,459
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	40,239	17,793	69,832	32,298
Amortization of debt discount and transaction costs	2,077	5,533	4,332	10,984
Amortization of deferred commissions	24,916	18,106	49,591	37,595
Expenses related to stock-based awards	54,594	26,615	102,152	53,083
Excess tax benefits from employee stock plans	(2,086)	(22,902)	(4,120)	(32,190)
Changes in assets and liabilities:				
Accounts receivable, net	(66,076)	(41,413)	90,051	97,538
Deferred commissions	(26,137)	(20,248)	(46,641)	(39,556)
Prepaid expenses and other current assets	(9,611)	181	(18,994)	10,120
Other assets	(1,913)	(2,703)	(4,626)	(4,142)
Accounts payable	4,121	5,583	2,984	3,925
Accrued expenses and other current liabilities	47,624	57,378	(18,017)	37,394
Deferred revenue	19,453	15,590	(355)	(24,229)
Net cash provided by operating activities	82,933	76,096	222,451	219,279
Investing activities				
Business combinations, net of cash acquired	(285,335)	(151,503)	(298,670)	(151,503)
Land activity and building improvements	(5,422)	0	(6,436)	0
Strategic investments	(7,782)	(2,000)	(13,215)	(2,500)
Purchase of marketable securities	(75,437)	(406,081)	(307,564)	(1,222,439)
Sales of marketable securities	84,879	145,801	436,949	349,954
Maturities of marketable securities	12,220	26,250	18,735	142,512
Capital expenditures	(45,051)	(27,831)	(72,365)	(39,521)
Net cash used in investing activities	(321,928)	(415,364)	(242,566)	(923,497)
Financing activities				
Purchase of subsidiary stock	0	0	0	(1,273)
Proceeds from the exercise of stock options	42,282	34,127	74,568	71,643
Excess tax benefits from employee stock plans	2,086	22,902	4,120	32,190
Contingent consideration payments related to prior business combinations	(13,400)	0	(16,200)	0
Principal payments on capital lease obligations	(10,549)	(2,123)	(14,111)	(4,041)
Net cash provided by financing activities	20,419	54,906	48,377	98,519
Effect of exchange rate changes	3,758	3,493	(2,760)	4,318

Net increase (decrease) in cash and cash equivalents	(214,818)	(280,869)	25,502	(601,381)
Cash and cash equivalents, beginning of period	664,612	690,794	424,292	1,011,306
Cash and cash equivalents, end of period	$ 449,794	$ 409,925	$ 449,794	$ 409,925
Supplemental cash flow disclosure:				
Cash paid (received) during the period for:				
Interest, net	$ 2,749	$ 2,351	$ 3,086	$ 2,566
Income taxes, net of tax refunds	1,028	723	12,006	(4,790)
Non-cash financing and investing activities:				
Fixed assets acquired under capital leases	0	5,733	47,203	6,164
Fair value of stock options assumed (Note 4)	4,729	0	4,729	0

See accompanying Notes.

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Notes to Condensed Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

Salesforce.com, inc. (the Company) is a leading provider of enterprise cloud computing applications. The Company provides a comprehensive customer and collaboration relationship management (CRM) service to businesses of all sizes and industries worldwide and provides a technology platform for customers and developers to build and run applications. The Company offers its enterprise cloud computing services on a subscription basis.

Fiscal Year

The Company s fiscal year ends on January 31. References to fiscal 2012, for example, refer to the fiscal year ending January 31, 2012.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of July 31, 2011 and the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the three and six months ended July 31, 2011 and 2010, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2011 was derived from the audited consolidated financial statements which are included in the Company s Form 10-K for the fiscal year ended January 31, 2011, which was filed with the Securities and Exchange Commission (the SEC) on March 23, 2011. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company s fiscal 2011 Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company s management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of the Company s statement of financial position as of July 31, 2011, and its results of operations and its cash flows for the three and six months ended July 31, 2011 and 2010. All adjustments are of a normal recurring nature. The results for the three and six months ended July 31, 2011 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2012.

On February 1, 2011, the Company adopted on a prospective basis Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). As a result of the adoption of ASU 2009-13, the Company has updated its accounting policy for revenue recognition related to multiple-deliverable arrangements.

Use of Estimates

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

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

- the best estimate of selling price of the deliverables included in multiple-deliverable revenue arrangements,

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the fair value of assets acquired and liabilities assumed for business combinations,

recognition and measurement of current and deferred income taxes,

the fair value of stock awards issued and

the valuation of strategic investments and the determination of other-than-temporary impairments.

Actual results could differ materially from those estimates.

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 in one reportable segment. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and assessing performance. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

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 part of a separate component of stockholders equity. Foreign currency transaction gains and losses are included in net income (loss) for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

Concentrations of Credit Risk and Significant Customers

The Company s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and trade accounts receivable. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits. Collateral is not required for accounts receivable. The Company maintains an allowance for doubtful accounts receivable balances. The allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts.

No customer accounted for more than five percent of accounts receivable at July 31, 2011 and January 31, 2011. No single customer accounted for five percent or more of total revenue in the three and six months ended July 31, 2011 and 2010.

As of July 31, 2011 and January 31, 2011, assets located outside the Americas were 16 percent of total assets, respectively.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	2011	2010	2011	2010
Americas	$ 366,916	$ 274,669	$ 706,934	$ 533,953
Europe	102,056	65,545	196,451	132,387
Asia Pacific	77,030	54,158	146,981	104,845
	$ 546,002	$ 394,372	$ 1,050,366	$ 771,185

Cash and Cash Equivalents

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

Marketable Securities

Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. Securities are classified as available for sale and are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of investment income. In order to determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value and its intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of investment income.

Fair Value Measurement

The Company reports its financial and non-financial assets and liabilities that are re-measured and reported at fair value at each reporting period. The Company uses a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1. Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

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

Level 3. 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 market observable inputs. The Company s contingent considerations related to acquisitions are classified within Level 3 because the liabilities are valued using significant unobservable inputs.

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The following table presents information about the Company s assets and liabilities that are measured at fair value as of July 31, 2011 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of July 31, 2011
Cash equivalents (1):				
Time deposits	$ 30,546	$ 0	$ 0	$ 30,546
Money market mutual funds	115,962	0	0	115,962
Marketable securities:				
Corporate notes and obligations	0	578,666	0	578,666
U.S. treasury securities	32,840	0	0	32,840
Mortgage backed securities	0	32,606	0	32,606
Government obligations	3,270	0	0	3,270
Municipal securities	0	22,711	0	22,711
Collateralized mortgage obligations	0	99,076	0	99,076
U.S. agency obligations	0	67,695	0	67,695
Foreign currency derivative contracts (2)	0	140	0	140
Total Assets	$ 182,618	$ 800,894	$ 0	$ 983,512
Liabilities				
Foreign currency derivative contracts (3)	$ 0	$ 3,213	$ 0	$ 3,213
Total Liabilities	$ 0	$ 3,213	$ 0	$ 3,213

(1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheet as of July 31, 2011, in addition to $303.3 million of cash.
(2) Included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet as of July 31, 2011.
(3) Included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet as of July 31, 2011.

The following table presents the Company s liabilities that were measured at fair value using significant unobservable inputs (Level 3) during the six month period ended July 31, 2011. These consisted of the Company s contingent consideration liabilities related to acquisitions (in thousands):

Balance at February 1, 2011	$ 17,138
Accretion	262
Payments	(17,400)
Balance at July 31, 2011	$ 0

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The following table presents information about the Company s assets and liabilities that are measured at fair value as of January 31, 2011 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of January 31, 2011
Cash equivalents (1):				
Time deposits	$ 26,565	$ 0	$ 0	$ 26,565
Money market mutual funds	122,516	0	0	122,516
Marketable securities:				
Corporate notes and obligations	0	707,613	0	707,613
U.S. treasury securities	22,706	0	0	22,706
Mortgage backed securities	0	38,886	0	38,886
Government obligations	6,532	0	0	6,532
Municipal securities	0	23,081	0	23,081
Collateralized mortgage obligations	0	105,039	0	105,039
U.S. agency obligations	0	79,408	0	79,408
Foreign currency derivative contracts (2)	0	1,539	0	1,539
Total Assets	$ 178,319	$ 955,566	$ 0	$ 1,133,885
Liabilities				
Foreign currency derivative contracts (3)	$ 0	$ 2,863	$ 0	$ 2,863
Contingent consideration (related to acquisitions, see Note 4) (3)	0	0	17,138	17,138
Total Liabilities	$ 0	$ 2,863	$ 17,138	$ 20,001

(1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheet as of January 31, 2011, in addition to $275.2 million of cash.
(2) Included in prepaid expenses and other current assets in the accompanying condensed consolidated balance sheet as of January 31, 2011.
(3) Included in accrued expenses and other current liabilities in the accompanying condensed consolidated balance sheet as of January 31, 2011.

The following table presents the Company s liabilities that were measured at fair value using significant unobservable inputs (Level 3) at January 31, 2011. These consisted of the Company s contingent consideration liabilities related to acquisitions and the fair value was determined using a discounted cash flow model (in thousands):

Balance at February 1, 2010	$ 0
Additions and accretion	17,138
Balance at January 31, 2011	$ 17,138

Strategic Investments

The Company has two investments in marketable equity securities measured using quoted prices in their respective active markets and certain interests in non-marketable equity and debt securities. As of July 31, 2011, the fair value of the Company s marketable equity securities of $8.9 million includes an unrealized gain of $6.7 million. As of January 31, 2011, the fair value of the Company s marketable equity security of $6.0 million includes an unrealized gain of $5.2 million. These investments are recorded in Other Assets, net on the condensed consolidated balance

sheets.

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The Company s interest in non-marketable equity and debt securities consists of noncontrolling equity and debt investments in privately-held companies. The Company s investments in these privately-held companies are reported at cost or marked down to fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. These investments are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company s management judgment due to the absence of market price and inherent lack of liquidity.

As of July 31, 2011 and January 31, 2011 the carrying value that approximates the fair value of the Company s investments in privately-held companies was $31.4 million and $21.1 million, respectively. These investments are recorded in Other Assets, net on the condensed consolidated balance sheets.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company uses forward currency derivative contracts to minimize the Company s exposure of balances denominated in Euros, Canadian dollars, Swiss francs, Australian dollars, Singapore dollars, Japanese yen and British pounds. 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 program is not designated for trading or speculative purposes. As of July 31, 2011 and January 31, 2011 the foreign currency derivative contracts that were not settled are recorded at fair value on the condensed consolidated balance sheets.

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

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

	July 31, 2011	January 31, 2011
Notional amount of foreign currency derivative contracts	$ 248,016	$ 202,491
Fair value of foreign currency derivative contracts	$ (3,073)	$ (1,324)

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

		Fair Value of Derivative Instruments	
	Balance Sheet Location	July 31, 2011	January 31, 2011
Derivative Assets			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Prepaid expenses and other current assets	$ 140	$ 1,539
Derivative Liabilities			
Derivatives not designated as hedging instruments:			
Foreign currency derivative contracts	Accrued expenses and other current liabilities	$ 3,213	$ 2,863

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The effect of the derivative instruments not designated as hedging instruments on the condensed consolidated statements of operations for the three and six months ended July 31, 2011 and 2010, respectively are summarized below (in thousands):

Derivatives Not Designated as Hedging Instruments	Gains (Losses) on Derivative Instruments Recognized in Income		
		Three months ended July 31,	
	Location	2011	2010
Foreign currency derivative contracts	Other income (expense)	$ (3,356)	$ 243

Derivatives Not Designated as Hedging Instruments	Gains (Losses) on Derivative Instruments Recognized in Income		
		Six months ended July 31,	
	Location	2011	2010
Foreign currency derivative contracts	Other income (expense)	$ (10,132)	$ 1,263

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:

	Three months ended July 31,		Six months ended July 31,	
(In thousands)	2011	2010	2011	2010
Interest income	$ 5,255	$ 8,157	$ 11,518	$ 13,150
Realized gains	502	1,453	3,773	4,653
Realized losses	(645)	(875)	(2,124)	(1,193)
Total investment income	$ 5,112	$ 8,735	$ 13,167	$ 16,610

Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following, net of tax: net income (loss), net foreign currency translation gains and losses, and net unrealized gains and losses on marketable securities. The following table sets forth the components of comprehensive income (loss) (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Consolidated net income (loss)	$ (4,268)	$ 16,583	$ (3,738)	$ 36,459
Less: net income attributable to noncontrolling interest	0	(1,839)	0	(3,970)
Translation and other adjustments	5,858	3,566	(1,219)	5,997
Unrealized gain on marketable securities	1,285	4,220	1,719	3,288
Comprehensive income (loss) attributable to salesforce.com	$ 2,875	$ 22,530	$ (3,238)	$ 41,774

Earnings/Loss Per Share

Basic earnings/loss per share attributable to salesforce.com is computed by dividing net income (loss) attributable to salesforce.com by the weighted-average number of common shares outstanding for the fiscal period. Diluted earnings/loss per share attributable to salesforce.com is computed giving effect to all potential

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weighted average dilutive common stock, including options, restricted stock units, warrants and the convertible senior notes. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method. Diluted earnings/loss per share for the three and six months ended July 31, 2011 is the same as basic earnings/loss per share as there is a net loss in those periods and inclusion of potentially issuable shares would be anti-dilutive.

A reconciliation of the denominator used in the calculation of basic and diluted earnings/loss per share attributable to salesforce.com is as follows (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Numerator:				
Net income (loss) attributable to salesforce.com	$ (4,268)	$ 14,744	$ (3,738)	$ 32,489
Denominator:				
Weighted-average shares outstanding for basic earnings/loss per share	135,093	129,462	134,273	128,747
Effect of dilutive securities:				
Convertible senior notes	0	349	0	349
Employee stock awards	0	4,365	0	4,341
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings/loss per share	135,093	134,176	134,273	133,437

The weighted average number of shares outstanding used in the computation of basic and diluted earnings/loss 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/loss per share because the effect would have been anti-dilutive (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Stock awards	7,482	557	7,402	3,089
Warrants	6,736	6,736	6,736	6,736
Convertible senior notes	6,735	0	6,735	0

Income Taxes

The Company uses the 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 and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts more likely than not expected to be realized.

The total income tax benefit recognized in the accompanying condensed consolidated statements of operations related to stock-based awards was $34.6 million and $19.4 million for the six months ended July 31, 2011 and 2010, respectively.

Effective Tax Rate

The Company computes its provision for income taxes by applying the estimated annual effective tax rate to income from recurring operations and adjusts the provision for discrete tax items recorded in the period. The Company s effective tax rate for the six months ended July 31, 2011 was 78 percent, which was higher than the federal statutory tax rate of 35 percent. The higher tax rate was attributable to a detrimental foreign tax

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differential and non-deductible acquisition expenses, offset by state income taxes, Federal and California tax credits and the tax benefit from the May 2011 acquisition of Radian6. The combined effect of these tax items is large and when compared to a small net loss before taxes resulted in the higher effective tax rate.

The Company s effective tax rate of 41 percent for the six months ended July 31, 2010 was higher than the federal statutory rate of 35 percent primarily due to state income taxes, a detrimental foreign tax rate differential, non-deductible acquisition expenses and the unfavorable impact of a change in California tax law, which was partially offset by California tax credits.

Unrecognized Tax Benefits and Other Considerations

The Company records liabilities related to its uncertain tax positions. During the three months ended July 31, 2011, the Company recorded $13.1 million of unrecognized tax benefits as a result of the Radian6 acquisition. The Company s existing tax positions will continue to generate an increase in tax liabilities or unrecognized tax benefits. The Company does not believe that it is reasonably possible that there will be a significant increase or decrease in unrecognized tax benefits over the next twelve months.

Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months. However, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

Revenue Recognition

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

The Company commences revenue recognition when all of the following conditions are satisfied:

There is persuasive evidence of an arrangement;

The service has been or is being provided to the customer;

The collection of the fees is reasonably assured; and

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

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

Subscription and Support Revenues

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

Professional Services and Other Revenues

The majority of the Company s professional services contracts are on a time and material basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are

recognized as the services are performed.

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Multiple-Deliverable Arrangements

The Company enters into arrangements with multiple-deliverables that generally include subscription, premium support and professional services.

Prior to February 1, 2011, the deliverables in multiple-deliverable arrangements were accounted for separately if the delivered items had standalone value and there was objective and reliable evidence of fair value for the undelivered items. If the deliverables in a multiple-deliverable arrangement could not be accounted for separately, the total arrangement fee was recognized ratably as a single unit of accounting over the contracted term of the subscription agreement. A significant portion of the Company s multiple-deliverable arrangements were accounted for as a single unit of accounting because the Company did not have objective and reliable evidence of fair value for certain of its deliverables. Additionally, in these situations, the Company deferred the direct costs of a related professional services arrangement and amortized those costs over the same period as the professional services revenue was recognized.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which amended the previous multiple-deliverable arrangements accounting guidance. Pursuant to the updated guidance, objective and reliable evidence of fair value of the deliverables to be delivered is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price.

In the first quarter of fiscal 2012, the Company adopted this updated accounting guidance on a prospective basis. The Company applied the new accounting guidance to those multiple-deliverable arrangements entered into or materially modified on or after February 1, 2011, which is the beginning of the Company s fiscal year.

The adoption of this updated accounting guidance did not have a material impact on the Company s financial condition, results of operations or cash flows. As of July 31, 2011, the deferred professional services revenue and deferred costs under the previous accounting guidance are $49.6 million and $23.2 million, respectively, which will continue to be recognized over the related remaining subscription period.

Under the updated accounting guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, the Company accounts for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, the Company considers the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date and the contractual dependence of the subscription service on the customer s satisfaction with the professional services work. To date, the Company has concluded that all of the professional services included in multiple-deliverable arrangements executed have standalone value.

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

For certain professional services, the Company has established VSOE as a consistent number of standalone sales of this deliverable have been priced within a reasonably narrow range. The Company has not established

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VSOE for its subscription services due to lack of pricing consistency, the introduction of new services and other factors. Accordingly, the Company uses its BESP to determine the relative selling price.

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

Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services described above and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in annual or quarterly installments.

Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements.

Billings against professional services arrangements entered into prior to February 1, 2011 will generally be added to deferred revenue and recognized over the remaining related subscription contract term.

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

Deferred Commissions

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

The commissions are deferred and amortized over the non-cancelable terms of the related customer contracts, which are typically 12 to 24 months. The commission payments are paid in full the month after the customer s service commences. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. The Company believes this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable customer contracts that they should be recorded as an asset and charged to expense over the same period that the subscription revenue is recognized. Amortization of deferred commissions is included in marketing and sales expense in the accompanying condensed consolidated statements of operations.

Business Combinations

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company s estimates are inherently uncertain and subject to refinement. As a result, 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 assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company s condensed consolidated statements of operations.

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In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. The Company reevaluates these items quarterly and records any adjustments to the Company s preliminary estimates to goodwill provided that the Company is within the measurement period and the Company continues to collect information in order to determine their estimated fair values as of the date of acquisition. Subsequent to the measurement period or the Company s final determination of the tax allowances or contingencies estimated value, changes to these uncertain tax positions and tax related valuation allowances will affect the Company s provision for income taxes in the Company s condensed consolidated statements of operations.

Accounting for Stock-Based Compensation

The Company recognizes stock-based expenses on a straight-line basis over the requisite service period of the awards, which is the vesting term of four years. Stock-based expenses are recognized net of estimated forfeiture activity.

The fair value of each 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:

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Volatility	47-50%	45%	47-50%	45-50%
Estimated life	3.7 years	3.8 years	3.7 years	3.8 years
Risk-free interest rate	1.07-1.39%	1.55-1.73%	1.07-1.77%	1.55-2.11%
Dividend yield	0	0	0	0
Weighted-average fair value per share of grants	$ 62.64	$ 30.49	$ 61.13	$ 29.54

The estimated life was based on an actual analysis of expected life. The risk free interest rate is based on the rate for a four-year U.S. government security at the time of the option grant.

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 option grants.

During the three months ended July 31, 2011 and 2010, the Company capitalized $0.5 million and $0.6 million, respectively, of stock-based expenses related to capitalized internal-use software development and deferred professional services costs and capitalized $1.1 million and $1.2 million for the six months ended July 31, 2011 and 2010, respectively.

During the six months ended July 31, 2011, the Company recognized stock-based expense of $102.2 million. As of July 31, 2011, the aggregate stock compensation remaining to be amortized to costs and expenses was $582.6 million. The Company expects this stock compensation balance to be amortized as follows: $114.0 million during the remaining six months of fiscal 2012; $193.3 million during fiscal 2013; $163.2 million during fiscal 2014; $106.0 million during fiscal 2015 and $6.1 million during fiscal 2016. The expected amortization reflects only outstanding stock awards as of July 31, 2011 and assumes no forfeiture activity. The Company expects to continue to issue stock-based awards to its employees in future periods.

Goodwill, Intangible Assets and Impairment Assessments

Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is tested for impairment at least annually during the fourth quarter (more frequently if certain indicators are present). In the event that the Company determines that

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the carrying value of goodwill is less than fair value, the Company will incur an impairment charge for the amount of the difference during the quarter in which the determination is made.

Intangible assets are amortized over their useful lives. Each period the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. The carrying amounts of these assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. In the event that the Company determines certain assets are not fully recoverable, the Company will incur an impairment charge for those assets or portion thereof during the quarter in which the determination is made.

Warranties and Indemnification

The Company s enterprise cloud computing application service is 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 indemnifications and has not accrued any liabilities related to such obligations in the accompanying condensed consolidated financial statements.

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

Subsequent Events

The Company evaluated subsequent events through the date this Quarterly Report on Form 10-Q was filed with the SEC.

New Accounting Pronouncements

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805) Business Combinations* (ASU 2010-29), to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. ASU 2010-29 is effective for the Company in fiscal 2013 and should be applied prospectively to business combinations for which the acquisition date is after the effective date. Early adoption is permitted. The Company does not believe the impact of the pending adoption of ASU 2010-29 will have a significant effect on the consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income

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either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for the Company in fiscal 2013 and should be applied retrospectively. The Company is currently evaluating the impact of the pending adoption of ASU 2011-05 on the consolidated financial statements.

Reclassification

A reclassification to the three and six month period ending July 31, 2010, condensed consolidated statements of cash flows was made. This reclassification was related to the purchase of subsidiary stock.

2. Balance Sheet Accounts

Marketable Securities

At July 31, 2011, marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 571,427	$ 7,585	$ (346)	$ 578,666
U.S. treasury securities	32,655	186	(1)	32,840
Mortgage backed securities	32,016	780	(190)	32,606
Government obligations	3,161	109	0	3,270
Municipal securities	22,609	132	(30)	22,711
Collateralized mortgage obligations	98,234	1,319	(477)	99,076
U.S. agency obligations	67,334	362	(1)	67,695
	$ 827,436	$ 10,473	$ (1,045)	$ 836,864

At January 31, 2011, marketable securities consisted of the following (in thousands):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 701,047	$ 7,356	$ (790)	$ 707,613
U.S. treasury securities	22,631	85	(10)	22,706
Mortgage backed securities	38,348	656	(118)	38,886
Government obligations	6,414	118	0	6,532
Municipal securities	23,121	79	(119)	23,081
Collateralized mortgage obligations	104,285	1,098	(344)	105,039
U.S. agency obligations	79,242	190	(24)	79,408
	$ 975,088	$ 9,582	$ (1,405)	$ 983,265

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

	July 31, 2011	January 31, 2011
Recorded as follows:		
Short-term (due in one year or less)	$ 127,582	$ 72,678
Long-term (due between one and 3 years)	709,282	910,587

$ 836,864	$ 983,265

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As of July 31, 2011, the following marketable securities were in an unrealized loss position (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	$ 53,841	$ (329)	$ 5,402	$ (17)	$ 59,243	$ (346)
U.S. treasury securities	8,509	(1)	0	0	8,509	(1)
Mortgage backed securities	2,923	(126)	7,375	(64)	10,298	(190)
Municipal securities	8,142	(30)	0	0	8,142	(30)
Collateralized mortgage obligations	39,012	(285)	3,744	(192)	42,756	(477)
U.S. agency obligations	4,496	(1)	0	0	4,496	(1)
	$ 116,923	$ (772)	$ 16,521	$ (273)	$ 133,444	$ (1,045)

The unrealized loss for each of these fixed rate marketable securities ranged from less than $1,000 to $192,000. The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of July 31, 2011. The Company expects to receive the full principal and interest on all of these marketable securities.

Prepaid Expenses and Other Current Assets

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

	July 31, 2011	January 31, 2011
Deferred professional services costs	$ 15,138	$ 17,908
Prepaid income taxes	14,780	720
Prepaid expenses and other current assets	65,124	37,093
	$ 95,042	$ 55,721

Property and Equipment, net

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

	July 31, 2011	January 31, 2011
Land	$ 248,263	$ 248,263
Building improvements	24,269	10,115
Computers, equipment and software	195,991	115,736
Furniture and fixtures	23,687	20,462
Leasehold improvements	113,148	100,380
	605,358	494,956
Less accumulated depreciation and amortization	(135,288)	(107,782)
	$ 470,070	$ 387,174

Depreciation and amortization expense totaled $16.7 million and $9.2 million for the three months ended July 31, 2011 and 2010, respectively, and $31.5 million and $17.9 million for the six months ended July 31, 2011 and 2010, respectively.

Computers, equipment and software at July 31, 2011 and January 31, 2011 included a total of $88.6 million and $38.8 million acquired under capital lease agreements, respectively. Accumulated amortization relating to computers, equipment and software under capital lease agreements totaled $27.5 million and $18.5 million, respectively, at July 31, 2011 and January 31, 2011. Amortization of assets under capital lease agreements is included in depreciation and amortization expense.

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Capitalized Interest Cost

Interest costs related to construction projects, specifically the Company s development of its global headquarters (campus project), and capitalized internal-use software development costs, are capitalized until the underlying asset is placed into service. Capitalized interest is calculated by multiplying the effective interest rate of the convertible senior notes by the qualifying costs. When the qualifying asset is placed into service, the qualifying asset and the related capitalized interest are amortized over the useful life of the related asset. Interest costs related to the buildings and improvements of $3.9 million and $0 were capitalized during the three months ended July 31, 2011 and 2010, respectively, and $7.7 million and $0 were capitalized during the six months ended July 31, 2011 and 2010, respectively. Interest costs related to the Company s capitalized internal-use software development efforts of $0.1 million and $0 were capitalized during the three months ended July 31, 2011 and 2010, respectively, and $0.2 million and $0 were capitalized during the six months ended July 31, 2011 and 2010, respectively.

Capitalized Software

Capitalized software consisted of the following (in thousands):

	July 31, 2011	January 31, 2011
Capitalized internal-use software development costs, net of accumulated amortization of $42,014 and $34,513, respectively	$ 32,983	$ 29,154
Acquired developed technology, net of accumulated amortization of $64,725 and $37,818, respectively	165,308	98,833
	$ 198,291	$ 127,987

Capitalized internal-use software amortization expense totaled $3.8 million and $3.2 million for the three months ended July 31, 2011 and 2010, respectively. Acquired developed technology amortization expense totaled $17.1 million and $3.9 million for the three months ended July 31, 2011 and 2010, respectively. Capitalized internal-use software amortization expense totaled $7.5 million and $6.2 million for the six months ended July 31, 2011 and 2010, respectively. Acquired developed technology amortization expense totaled $26.9 million and $5.6 million for the six months ended July 31, 2011 and 2010, respectively.

As described in Note 4 Business Combinations the Company acquired Radian6 Technologies Inc. in May 2011. Approximately $84.2 million of the purchase consideration was allocated to acquired developed technology.

Other Assets, net

Other assets consisted of the following (in thousands):

	July 31, 2011	January 31, 2011
Deferred professional services costs, noncurrent	$ 8,022	$ 10,201
Long-term deposits	13,715	12,114
Purchased intangible assets, net of accumulated amortization of $13,414 and $9,868, respectively	47,114	31,660
Aquired intellectual property, net of accumulated amortization of $1,589 and $746, respectively.	13,559	5,874
Strategic investments	40,283	27,065
Other	22,807	17,457
	$ 145,500	$ 104,371

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As described in Note 4 Business Combinations the Company acquired Radian6 in May 2011. Approximately $18.8 million of the purchase consideration was allocated to purchased intangible assets.

Purchased intangible assets amortization expense for the three months ended July 31, 2011 and 2010, was $2.3 million and $1.2 million, respectively, and for the six months ended July 31, 2011 and 2010, was $3.5 million and $2.0 million, respectively.

Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. Goodwill amounts are not amortized, but rather tested for impairment at least annually during the fourth quarter. There was no impairment of goodwill for the six months ended July 31, 2011.

Goodwill consisted of the following (in thousands):

Balance as of January 31, 2011	$ 396,081
Manymoon Corporation	10,493
Radian6 Technologies Inc.	262,637
Other adjustments	2,359
Balance as of July 31, 2011	$ 671,570

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	July 31, 2011	January 31, 2011
Accrued compensation	$ 130,693	$ 148,275
Accrued other liabilities	126,076	112,840
Accrued income and other taxes payable	82,832	49,135
Accrued professional costs	23,796	12,548
Accrued rent	26,456	22,323
	$ 389,853	$ 345,121

Convertible Senior Notes

In January 2010, the Company issued at par value $575.0 million of 0.75% convertible senior notes (the Notes) due January 15, 2015. Interest is payable semi-annually in arrears on January 15 and July 15 of each year, which commenced July 15, 2010.

The Notes are governed by an Indenture dated as of January 19, 2010, between the Company, as issuer, and U.S. Bank National Association, as trustee. The Notes do not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company. The Notes are unsecured and rank senior in right of payment to the Company s future indebtedness that is expressly subordinated in right of payment to the Notes and rank equal in right of payment to the Company s existing and future unsecured indebtedness that is not so subordinated and are effectively subordinated in right of payment to any of the Company s cash equal to the principal amount of the Notes, and secured indebtedness to the extent of the value of the assets securing such indebtedness and are structurally subordinated to all existing and future indebtedness and liabilities incurred by the Company s subsidiaries, including trade payables.

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

The initial conversion rate is 11.7147 shares of common stock per $1,000 principal amount of Notes, subject to anti-dilution adjustments. The initial conversion price is $85.36 per share of common stock. Throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events, including for any cash dividends. Holders of the Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than cancelled, extinguished or forfeited. Holders may convert their Notes under the following circumstances:

- during any fiscal quarter, if, for at least 20 trading days during the 30 consecutive trading day period ending on the last trading day of the immediately preceding fiscal quarter, the last reported sales price of the Company s common stock for such trading day is greater than or equal to 130 percent of the applicable conversion price on such trading day share of common stock on such last trading day;

- in certain situations, when the trading price of the Notes is less than 98 percent of the product of the sale price of the Company s common stock and the conversion rate;

- upon the occurrence of specified corporate transactions described under the Notes Indenture, such as a consolidation, merger or binding share exchange; or

- at any time on or after October 15, 2014.

During the fiscal quarter ended April 30, 2011, the closing stock price conversion right was triggered therefore the Notes were convertible at the option of the holder up to 6.7 million of the Company s common shares for the Company s entire second fiscal quarter. As of July 31, 2011 the Notes are classified as a current liability on the Company s condensed consolidated balance sheet. Additionally, a portion of the equity component of the Notes attributable to the conversion feature of the Notes is classified in temporary stockholders equity equal to the difference between the principal amount and carrying value of the Notes. The closing stock price conversion right also was triggered during the fiscal quarter ended July 31, 2011, therefore the liability and equity components of the Notes will remain classified as current and temporary, respectively, for the quarter ended October 31, 2011.

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

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

In accounting for the transaction costs related to the Note issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative values. Transaction costs attributable to the liability component are being amortized to expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity components in temporary stockholders equity and stockholders equity. Additionally, the Company initially recorded a deferred tax liability of $51.1 million in connection with the Notes.

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The Notes consisted of the following (in thousands):

	July 31, 2011	January 31, 2011
Liability component :		
Principal	$ 574,900	$ 575,000
Less: debt discount, net (1)	(90,772)	(102,462)
Net carrying amount	$ 484,128	$ 472,538

(1) Included in the condensed consolidated balance sheets within convertible senior notes and is amortized over the remaining life of the Notes using the effective interest rate method.

As of July 31, 2011, the remaining contractual life of the Notes is approximately 3.5 years.

The following table sets forth total interest expense recognized related to the Notes prior to capitalization of interest (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Contractual interest expense	$ 1,078	$ 1,078	$ 2,156	$ 2,156
Amortization of debt issuance costs	331	331	661	659
Amortization of debt discount	5,859	5,533	11,690	10,984
	$ 7,268	$ 6,942	$ 14,507	$ 13,799
Effective interest rate of the liability component	5.86%	5.86%	5.86%	5.86%

Note Hedges

To minimize the impact of potential economic dilution upon conversion of the Notes, the Company entered into convertible note hedge transactions with respect to its common stock (the Note Hedges). The Company paid, in January 2010, an aggregate amount of $126.5 million for the Note Hedges. The Note Hedges cover approximately 6.7 million shares of the Company s common stock at a strike price that corresponds to the initial conversion price of the Notes, also subject to adjustment, and are exercisable upon conversion of the Notes. The Note Hedges will expire upon the maturity of the Notes. The Note Hedges are intended to reduce the potential economic dilution upon conversion of the Notes in the event that the market value per share of the Company s common stock, as measured under the Notes, at the time of exercise is greater than the conversion price of the Notes. The Note Hedges are separate transactions and are not part of the terms of the Notes. Holders of the Notes will not have any rights with respect to the Note Hedges. The Company initially recorded a deferred tax asset of $51.4 million in connection with these Note Hedges.

Warrants

Separately, the Company in January 2010 also entered into warrant transactions (the Warrants), whereby the Company sold warrants to acquire, subject to anti-dilution adjustments, up to 6.7 million shares of the Company s common stock at a strike price of $119.51 per share. The Company received aggregate proceeds of $59.2 million from the sale of the Warrants. As the weighted average market value per share of the Company s common stock for the three and six months ended July 31, 2011 exceeds the strike price of the Warrants, the Warrants would have had a dilutive effect on the Company s earnings/loss per share for the three and six months ended July 31, 2011. The Warrants were anti-dilutive for the three and six months ended July 31, 2011 based on the Company s net loss for the three and six months ended July 31, 2011. The Warrants are separate transactions, entered into by the Company and are not part of the terms of the Notes or Note Hedges. Holders of the Notes and Note Hedges will not have any rights with respect to the Warrants.

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3. Stockholders Equity

Stock Options Issued to Employees

The Company maintains the following stock plans: the 2004 Equity Incentive Plan, 2004 Employee Stock Purchase Plan and the 2004 Outside Directors Stock Plan. These plans, other than the 2004 Outside Directors Stock Plan, provide for annual automatic increases on February 1 to the shares reserved for issuance. The expiration of the 1999 Stock Option Plan in fiscal 2010 did not affect awards outstanding, which continue to be governed by the terms and conditions of the 1999 Stock Option Plan.

On May 2, 2011, as part of the share purchase agreement entered into with Radian6, the Company assumed Radian6 s existing stock option plan which consisted of 239,519 unvested options to purchase 239,519 shares of the Company s common stock after giving effect to the closing of the Radian6 transaction.

On February 1, 2011, 3.5 million additional shares were reserved under the 2004 Equity Incentive Plan pursuant to the automatic increase. The 2004 Employee Stock Purchase Plan will not be implemented unless and until the Company s Board of Directors authorizes the commencement of one or more offerings under the plan. No offering periods have been authorized to date.

In April 2006, the Company s Board of Directors approved the 2006 Inducement Equity Incentive Plan (the Inducement Plan) that allows for stock option and other equity incentive grants to employees in connection with merger or acquisition activity.

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

Stock activity is as follows:

	Shares Available for Grant	Options Outstanding		
		Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2011	4,095,460	11,783,159	$ 65.35	
Increase in shares authorized:				
2004 Equity Incentive Plan	3,500,000	0	0.00	
Radian6 Technologies Inc. Stock Option Plan	239,519	0	0.00	
Options granted under all plans	(883,357)	883,357	120.60	
Restricted stock activity	(385,528)	0	0.00	
Stock grants to board and advisory board members	(25,100)	0	0.00	
Exercised	0	(1,750,753)	42.59	
1999 Plan shares expired	(22,992)	0	0.00	
Cancelled	375,941	(375,941)	83.13	
Balance as of July 31, 2011	6,893,943	10,539,822	$ 73.13	$ 756,286
Vested or expected to vest		10,194,688	$ 72.10	$ 741,919
Exercisable as of July 31, 2011		3,920,092	$ 38.55	$ 416,151

The total intrinsic value of the options exercised during the six months ended July 31, 2011 and 2010 was $169.6 million and $121.7 million, respectively. The intrinsic value is the difference of the current market value of the stock and the exercise price of the stock option.

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The weighted-average remaining contractual life of vested and expected to vest options is approximately 3.2 years.

As of July 31, 2011, options to purchase 3,920,092 shares were vested at a weighted average exercise price of $38.55 per share and a remaining weighted-average remaining contractual life of approximately 2.3 years. The total intrinsic value of these vested options as of July 31, 2011 was $416.2 million.

The following table summarizes information about stock options outstanding as of July 31, 2011:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$1.10 to $25.19	1,008,806	3.3	$ 10.80	865,034	$ 10.57
$25.97	1,829,029	2.3	25.97	897,299	25.97
$27.40 to $52.48	1,516,728	1.7	47.12	1,106,734	47.04
$52.76 to $65.41	544,109	2.0	56.08	338,231	55.47
$65.44	1,962,524	3.3	65.44	549,836	65.44
$65.68 to $140.28	1,130,350	4.0	102.76	162,958	72.87
$142.50 to $151.75	2,548,276	4.4	143.57	0	0
	10,539,822	3.2	$ 73.13	3,920,092	$ 38.55

Restricted stock activity is as follows:

	Restricted Stock Outstanding		
	Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2011	3,216,103	$ 0.001	
Granted	545,075	0.001	
Cancelled	(134,447)	0.001	
Vested and converted to shares	(436,819)	0.001	
Balance as of July 31, 2011	3,189,912	$ 0.001	$ 461,612
Expected to vest	3,002,497		$ 434,491

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 weighted-average fair value of the restricted stock issued for the six months ended July 31, 2011 and 2010 was $143.59 and $75.93, respectively.

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Common Stock

The following numbers of shares of common stock were reserved and available for future issuance at July 31, 2011:

Options outstanding	10,539,822
Restricted stock awards and units outstanding	3,189,912
Stock available for future grant:	
2004 Equity Incentive Plan	6,179,952
2006 Inducement Equity Incentive Plan	126,991
2004 Employee Stock Purchase Plan	1,000,000
2004 Outside Directors Stock Plan	587,000
0.75% Convertible senior notes	6,734,664
Warrants	6,735,953
	35,094,294

4. Business Combinations

Radian6 Technologies Inc.

In May 2011, the Company acquired the outstanding stock of Radian6 for cash and the Company s common stock. Radian6 is a cloud application vendor based in Canada that provides customers with social media monitoring, measurement and engagement solutions. The Company acquired Radian6 to, among other things, expand its social enterprise market opportunities. The Company has included the financial results of Radian6 in the condensed consolidated financial statements from the date of acquisition, which have not been material to date. The total consideration for Radian6 was approximately $336.6 million, of which $282.6 million was cash, $49.3 million in shares of the Company s common stock and $4.7 million for the fair value of stock options of Radian6 assumed by the Company. The value of the share consideration for the Company s common stock was based on the closing price of $136.19 on the day of the acquisition. The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model and the share conversion ratio of 0.196 Radian6 options to the Company s options.

The total preliminary purchase price was allocated to the net tangible and intangible assets and liabilities based upon their fair values as of May 2, 2011 as set forth below. The excess of the preliminary purchase price over the net tangible and intangible assets was recorded as goodwill. The following table summarizes estimated fair values of the assets and liabilities assumed at the acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to both current and noncurrent income taxes payable and deferred taxes which are subject to change, pending the finalization of certain tax returns.

(in thousands)	
Tangible assets	$ 11,754
Current and noncurrent liabilities	(12,757)
Deferred revenue	(680)
Deferred tax liability	(27,306)
Intangible assets	103,000
Goodwill	262,637
Total purchase price	$ 336,648

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The following table sets forth the components of intangible assets acquired in connection with the Radian6 acquisition:

(in thousands)	Fair value	Useful Life
Developed technology	$ 84,200	3 years
Customer relationships	15,000	5 years
Trade name and trademark	3,800	3 years
Total intangible assets subject to amortization	$ 103,000	

Developed technology represents the fair value of the Radian6 monitoring technology. Customer relationships represent the fair values of the underlying relationships and agreements with Radian6 customers. Trade name and trademark represents the fair value of brand and name recognition associated with the marketing of Radian6 service offerings. The goodwill balance is primarily attributed to the assembled workforce, expected synergies and expanded market opportunities when integrating Radian6 s social solution media technology with the Company s current product offerings. The goodwill balance is deductible for tax purposes.

The Company assumed unvested options with a fair value of $23.9 million. Of the total consideration, $4.7 million was allocated to the purchase consideration and $19.2 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

Other Business Combinations

On February 1, 2011 the Company acquired the stock of Manymoon Corporation (Manymoon) for $13.6 million in cash. The Company accounted for this transaction as a business combination. In allocating the purchase price based on estimated fair values, the Company preliminarily recorded $4.7 million of acquired intangible assets with useful lives of one to three years, $10.5 million of goodwill, and $1.6 million of deferred tax liabilities. The goodwill balance is not deductible for tax purposes. This transaction is not material to the Company.

In May 2011, the Company acquired a company for $5.9 million in cash and has included the financial results of this company in its condensed consolidated financial statements from date of acquisition. This transaction is not material to the Company.

Fiscal year 2011

Jigsaw Data Corporation

On May 7, 2010 the Company acquired for cash the stock of Jigsaw Data Corporation (Jigsaw), a cloud provider of crowd-sourced data services. The Company acquired Jigsaw to, among other things, combine the Company s CRM applications and enterprise cloud platform with Jigsaw s cloud-based model for the automation of acquiring, completing and cleansing business contact data. The Company has included the financial results of Jigsaw in the condensed consolidated financial statements from the date of acquisition.

The total cash consideration for Jigsaw was approximately $148.5 million. In addition, the Company made additional payments (contingent consideration) of $14.4 million in cash, based on the achievement of certain billings targets related to Jigsaw s services for the one-year period ended May 7, 2011. The estimated fair value using a discounted cash flow model of the contingent consideration at May 7, 2010 was $13.4 million and is included in the total purchase price. The Company recorded and paid the full amount of the contingent consideration during the fiscal quarter ended July 31, 2011 based on Jigsaw s achievement of meeting its billing targets as it relates to the contingent consideration. The total purchase price and the fair value of the contingent consideration were allocated to the net tangible and intangible assets and liabilities based upon their fair values as of the acquisition date. In the final purchase price allocation based on fair values, the Company recorded approximately $133.9 million of goodwill, $28.1 million of identifiable intangible assets, $4.4 million of deferred tax liabilities and $4.3 million of net tangible assets.

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Heroku, Inc.

On January 3, 2011 the Company acquired for cash the stock of Heroku, Inc. (Heroku), a platform-as-a-service cloud vendor, built to work in an open environment and take advantage of the Ruby language. Ruby has become one of the leading development languages used for applications that are social and collaborative and that deliver real-time access to information across mobile devices. The Company acquired Heroku to, among other things, access a large community of developers and independent software vendors (ISVs) who are building applications in the cloud. The Company has included the financial results of Heroku in the condensed consolidated financial statements from the date of acquisition.

The total cash consideration for Heroku was approximately $216.7 million. The total preliminary purchase price was allocated to the net tangible and intangible assets and liabilities based upon their fair values as of the acquisition date. In allocating the purchase price based on estimated fair values, the Company preliminarily recorded approximately $181.5 million of goodwill, $40.1 million of identifiable intangible assets, $10.1 million of deferred tax liabilities and $5.2 million of net tangible assets. The preliminary allocation of the purchase price was based upon a preliminary valuation. The Company s estimates and assumptions are subject to change within the measurement period of one year from the acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to both current and noncurrent deferred taxes which are subject to change, pending the finalization of certain tax returns. The Company expects to continue to obtain information to finalize these preliminary valuations during the measurement period.

DimDim, Inc.

On January 6, 2011 the Company acquired for cash the stock of DimDim, Inc. (DimDim), a provider of online meeting solutions for business collaboration. The Company acquired DimDim to, among other things, expand its market leadership opportunities when integrating DimDim s online meeting solution technology with the Company s collaboration cloud offering. The Company has included the financial results of DimDim in the condensed consolidated financial statements from the date of acquisition.

The total cash consideration for DimDim was approximately $37.1 million. The total preliminary purchase price was allocated to the net tangible and intangible assets and liabilities based upon their fair values as of acquisition date. In allocating the purchase price based on estimated fair values, the Company preliminarily recorded approximately $23.4 million of goodwill, $14.4 million of identifiable intangible assets, $2.6 million of deferred tax liabilities and $1.9 million of net tangible assets. The preliminary allocation of the purchase price was based upon a preliminary valuation. The Company s estimates and assumptions are subject to change within the measurement period of one year from the acquisition date. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to both current and noncurrent deferred taxes which are subject to change, pending the finalization of certain tax returns. The Company expects to continue to obtain information to finalize these preliminary valuations during the measurement period.

5. Commitments

Letters of Credit

As of July 31, 2011, the Company had a total of $10.6 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and mature at various dates through September 2021.

Leases

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

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As of July 31, 2011, the future minimum lease payments under non-cancelable operating and capital leases are as follows (in thousands):

	Capital Leases	Operating Leases
Fiscal Period:		
Remaining six months of fiscal 2012	$ 13,739	$ 60,728
Fiscal 2013	23,522	114,509
Fiscal 2014	19,070	91,056
Fiscal 2015	326	52,395
Fiscal 2016	0	47,169
Thereafter	0	123,860
Total minimum lease payments	56,657	$ 489,717
Less: amount representing interest	(2,572)	
Present value of capital lease obligations	$ 54,085	

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

6. Legal Proceedings

The Company is involved in various legal matters arising from the normal course of business activities. These include claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, wage and hour, and other matters.

On June 7, 2011, the Company entered into a preliminary settlement agreement with respect to a California state wage and hour lawsuit that had been filed against the Company early in 2011 in the Superior Court of California, County of San Francisco. The settlement agreement is subject to approval of the court, which is expected to rule by late 2011 or early 2012. The Company s current estimate of the expense charge for the settlement is approximately $0.04 per diluted share. This charge is reflected in the Company s financial results for the six months ending July 31, 2011.

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, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. In management s opinion, resolution of these matters is not expected to have a material adverse impact on the Company s condensed consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect the Company s future results of operations or cash flows, or both, of a particular quarter.

7. Related-Party Transactions

In January 1999, the salesforce.com/foundation, also referred to as the Foundation, a non-profit public charity, was chartered to build philanthropic programs that are focused on youth and technology. The Company s chairman is the chairman of the Foundation. He, one of the Company s employees and one of the Company s

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board members hold three of the Foundation s seven board seats. The Company is not the primary beneficiary of the Foundation s activities, and accordingly, the Company does not consolidate the Foundation s statement of activities with its financial results.

Since the Foundation s inception, the Company has provided at no charge certain resources to Foundation employees such as office space. The value of these items was in excess of $90,000 for the quarter ending July 31, 2011.

In addition to the resource sharing with the Foundation, the Company issued to the Foundation warrants in August 2002 to purchase shares of the Company s common stock. All of the warrants were exercised in prior years. As of July 31, 2011, the Foundation held 108,000 shares of salesforce.com common stock. Additionally, the Company has donated subscriptions to the Company s service to other qualified non-profit organizations. The Company also allows an affiliate of the Foundation to resell the Company s service to large non-profit organizations. The Company does not charge the affiliate for the subscriptions. The fair value of these and the subscriptions were in excess of $2.5 million for the quarter ended July 31, 2011. The Company plans to continue these programs.

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

The following discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our business strategy and our plan to build our business, including our strategy to be the leading provider of enterprise cloud computing applications and to lead the industry shift to the social enterprise, our service performance and security, the expenses associated with new data centers and expanding our data center capacity, our operating results, our anticipated growth, trends in our business, new application service features, our strategy of acquiring or making investments in complementary companies, services and technologies, and intellectual property rights, our ability to successfully integrate acquired businesses and technologies, the effect of general economic and market conditions including sudden declines in the fair value of our investments in cash equivalents and marketable securities, our ability to protect our intellectual property rights, our ability to develop our brands, the effect of evolving government regulations, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the potential availability of additional tax assets in the future and related matters, the impact of expensing stock options, the sufficiency of our capital resources, potential litigation involving us and our plan to build our new global headquarters in San Francisco, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as expects, anticipates, aims, projects, intends, plans, believes, estimates, seeks, variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may 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 factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are a leading provider of enterprise cloud computing applications. We provide a comprehensive customer and collaboration relationship management, or CRM, service to businesses of all sizes and industries worldwide and we provide a technology platform for customers and developers to build and run business applications.

We were founded in February 1999 and began offering our enterprise CRM application service in February 2000. Since then, we have augmented our CRM service with new editions and enhanced features. We introduced our Force.com platform to customers and developers so they can build complementary applications to extend beyond CRM. In 2010, we introduced our AppExchange directory of enterprise cloud computing applications that are integrated with our CRM service and, in most cases, have been developed on our platform by third parties. We also introduced Chatter, a collaboration application for the enterprise to connect and share information securely and in real-time.

Our objective is to be the leading provider of enterprise cloud computing applications and to lead the industry shift to the social enterprise. Social enterprises leverage social, mobile and open cloud technologies to put customers at the heart of their business. Key elements of our strategy include:

Strengthening our existing CRM applications and extending into new functional areas within CRM;

Pursuing new customers and new territories aggressively;

Deepening relationships with our existing customer base;

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Continuing to lead the industry transformation to the next phase of cloud computing; and

Encouraging the development of third-party applications on our Force.com cloud computing platform.

We believe the factors that will influence our ability to achieve our objectives include our prospective customers willingness to migrate to an enterprise cloud computing application service; the performance and security of our service; our ability to continue to release, and gain customer acceptance of, new and improved features; our ability to successfully integrate acquired businesses and technologies; successful customer adoption and utilization of our service; acceptance of our service in markets where we have few customers; the emergence of additional competitors in our market and improved product offerings by existing and new competitors; the location of new data centers; third-party developers willingness to develop applications on our platform; and general economic conditions which could affect our customers ability and willingness to purchase our application service, delay the customers purchasing decision or affect renewal 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 such as our Unlimited Edition, provide high quality technical support to our customers and encourage the development of third-party applications on our Force.com platform. Our plans to invest for future growth include the continuation of the expansion of our data center capacity. We also plan to continue to hire additional personnel, particularly in direct sales, other customer-related areas and research and development. As part of our growth plans, we intend to continue to focus on retaining customers at the time of renewal. Additionally, we plan to: expand our domestic and international selling and marketing activities; continue to develop our brands; add additional distribution channels; increase our research and development activities to upgrade and extend our service offerings; develop new services and technologies and integrate acquired technologies; and add 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. As such, we plan to reinvest a significant portion of our incremental revenue in fiscal 2012 to grow our business and continue our leadership role in the cloud computing industry. As a result of these investments, we expect diluted earnings per share for fiscal 2012 to be significantly lower than diluted earnings per share for fiscal 2011.

Over the past two years, we acquired several businesses and technologies such as Jigsaw Data Corporation and Heroku, Inc. In February 2011, we acquired Manymoon Corporation (Manymoon) for a total purchase price consideration of $13.6 million. Manymoon offers a cloud-based project collaboration application. We acquired Manymoon for its developed technology in order to expand our CRM application offerings for small businesses and workgroups. In May 2011, we acquired Radian6 for a total purchase price consideration of approximately $336.6 million, net of cash acquired. Radian6 is a cloud application vendor that provides customers with social media monitoring, measurement and engagement solutions. We acquired Radian6 for the assembled workforce, expected synergies and expanded market opportunities when integrating Radian6 s social solution technology with our current product offerings.

In fiscal 2010, we issued at par value $575.0 million of 0.75% convertible senior notes due on January 15, 2015 (the Notes). For 20 trading days during the 30 consecutive trading days ended January 31, 2011, April 30, 2011 and July 31, 2011, our common stock traded at a price exceeding 130 percent of the conversion price of $85.36 per share applicable to the Notes. Accordingly, based on the terms of the Notes, since February 1, 2011, the Notes were convertible at the option of the holder and will remain convertible at the holders option for the quarter ending October 31, 2011. Upon conversion of any Notes, we will deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock, cash, or a combination of both. Therefore, for the quarter ending October 31, 2011, the Notes will remain classified as a current liability on our condensed consolidated balance sheet.

We expect marketing and sales costs, which were 52 percent of our total revenues for the six months ended July 31, 2011 and 47 percent for the same period a year ago, to continue to represent a substantial portion of total revenues in the future as we seek to add and manage more paying subscribers, and build greater brand awareness.

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Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2012, for example, refer to the fiscal year ended January 31, 2012.

Segments

We have made several acquisitions to expand our business and offerings. For example in fiscal 2012, we acquired Radian6 to provide cloud based social media monitoring, measurement and engagement solutions. This and other acquisitions made over the past two years have allowed us to expand our offerings, presence and reach in various segments of the enterprise cloud computing market. While we have offerings in multiple enterprise cloud computing market segments, our business operates in one reportable segment because our decision making group evaluates our financial information, resources and assesses the performance of these resources on a consolidated basis only. Since we operate in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Sources of Revenues

We derive our revenues from: (1) subscriptions fees from customers accessing our enterprise cloud computing application service; (2) support revenues from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; (3) professional services, which include consulting services such as process mapping and project management, and implementation services including systems integration, technical architecture and development, and data conversion; and (4) other revenue, which consists primarily of training fees. Subscription and support revenues accounted for approximately 94 percent of our total revenues during the six months ended July 31, 2011. Subscription revenues are driven primarily by the number of paying subscribers, varying service types, the price of our service and service renewal rates. 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 service. We define a subscription as a unique user account purchased by a customer for use by its employees or other customer-authorized users, and each such user is who we call a subscriber. The number of paying subscriptions at each of our customers ranges from one to tens of thousands. None of our customers accounted for more than five percent of our revenues during the three and six months ended July 31, 2011 and 2010, respectively.

Subscription and support revenues are recognized ratably over the contract terms beginning on the commencement dates of each contract. The typical subscription and support term is 12 to 24 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 or quarterly installments, and typical payment terms provide that our customers pay us within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue, or in revenue depending on whether the revenue recognition criteria have been met. In general, we collect our billings in advance of the subscription service period.

Professional services and other revenues consist of fees associated with consulting and implementation services and training. Our consulting and implementation engagements are typically billed on a time and materials 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 payment terms provide that our customers pay us within 30 days of invoice.

In determining whether professional services can be accounted for separately from subscription and support revenues, we consider a number of factors, which are described in Critical Accounting Policies and Estimates Revenue Recognition below. Prior to February 1, 2011, the deliverables in multiple-deliverable arrangements were accounted for separately if the delivered items had standalone value and there was objective and reliable

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evidence of fair value for the undelivered items. If the deliverables in a multiple-deliverable arrangement could not be accounted for separately, the total arrangement fee was recognized ratably as a single unit of accounting over the contracted term of the subscription agreement. A significant portion of our multiple-deliverable arrangements were accounted for as a single unit of accounting because we did not have objective and reliable evidence of fair value for certain of our deliverables. Additionally, in these situations, we deferred the direct costs of a related professional service arrangement and amortized those costs over the same period as the professional services revenue was recognized.

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which amended the previous multiple-deliverable arrangements accounting guidance. Pursuant to the new guidance, objective and reliable evidence of fair value of the deliverables to be delivered is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price. In the first quarter of fiscal 2012, we adopted this new accounting guidance on a prospective basis. We applied the new accounting guidance to those multiple-deliverable arrangements entered into or materially modified on or after February 1, 2011 which is the beginning of our fiscal year.

Seasonal Nature of Deferred Revenue and Accounts Receivable

Deferred revenue primarily consists of billings to customers for our subscription service. Over 90 percent of the value of our billings to customers is for our subscription and support service. We generally invoice our customers in either quarterly or annual cycles, with a disproportionate weighting towards annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Additionally, 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 and existing customers to increase as a proportion of our total annual billings.

Accordingly, the sequential quarterly changes in accounts receivable and the related deferred revenue during the first three quarters of our fiscal year are not necessarily indicative of the billing activity that occurs in the fourth quarter as displayed below:

(in thousands)	April 30, 2011	July 31, 2011		
Fiscal 2012				
Accounts receivable, net	$ 270,816	$ 342,397		
Deferred revenue, current and noncurrent	915,133	935,266		

	April 30, 2010	July 31, 2010	October 31, 2010	January 31, 2011
Fiscal 2011				
Accounts receivable, net	$ 183,612	$ 228,550	$ 258,764	$ 426,943
Deferred revenue, current and noncurrent	664,529	683,019	694,557	934,941

	April 30, 2009	July 31, 2009	October 31, 2009	January 31, 2010
Fiscal 2010				
Accounts receivable, net	$ 145,869	$ 168,842	$ 191,297	$ 320,956
Deferred revenue, current and noncurrent	549,373	549,010	545,435	704,348

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Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of subscription and support revenues primarily consists of expenses related to hosting our service and providing support, the costs of data center capacity, depreciation or operating lease expense associated with computer equipment and software, allocated overhead and amortization expense associated with capitalized software related to our application service and acquired developed technology. We allocate overhead such as 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 and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenue than for our enterprise cloud computing subscription service due to the direct labor costs and costs of subcontractors.

We intend to continue to invest additional resources in our enterprise cloud computing application service. For example, we plan to open additional data centers in the future. Additionally, as we acquire new businesses and technologies, the amortization expense associated with this activity will be included in cost of revenues. 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 enhancing the ease of use of our enterprise cloud computing application service. Our proprietary, scalable and secure multi-tenant architecture enables us to provide all of our customers with a service based on a single version of our application. As a result, we do not have to maintain multiple versions, which enables us to have relatively lower research and development expenses as compared to traditional enterprise software companies. We expect that in the future, research and development expenses will increase in absolute dollars as we improve and extend our service offerings, develop new technologies and integrate acquired businesses and technologies.

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

We plan to continue to invest in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost.

General and Administrative. General and administrative expenses consist of salaries and related expenses, including stock-based expenses, for finance and accounting, human resources and management information systems personnel, legal costs, professional fees, other corporate expenses and allocated overhead. We expect that in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee related costs, professional fees and insurance costs related to the growth of our business and international expansion. We expect general and administrative costs as a percentage of total revenues to remain flat for the next several quarters.

Stock-Based Expenses. Our cost of revenues and operating expenses include stock-based expenses related to option and stock awards to employees and non-employee directors. We recognize our stock-based payments as an expense in the statement of operations based on their fair values and vesting periods. If our grant activity remains consistent and our stock price increases in the future, stock-based expenses will rise. These charges have been significant in the past and we expect that they will increase as we hire more employees and seek to retain existing employees.

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

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

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

There is persuasive evidence of an arrangement;

The service has been or is being provided to the customer;

The collection of the fees is reasonably assured; and

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

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

Subscription and Support Revenues

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

Professional Services and Other Revenues

The majority of our professional services contracts are on a time and material basis. When these services are not combined with subscription revenues as a single unit of accounting, as discussed below, these revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. Training revenues are recognized after the services are performed.

Multiple-Deliverable Arrangements

We enter into arrangements with multiple-deliverables that generally include subscription, premium support, and professional services.

Prior to February 1, 2011, the deliverables in multiple-deliverable arrangements were accounted for separately if the delivered items had standalone value and there was objective and reliable evidence of fair value for the undelivered items. If the deliverables in a multiple-deliverable arrangement could not be accounted for separately, the total arrangement fee was recognized ratably as a single unit of accounting over the contracted

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term of the subscription agreement. A significant portion of our multiple-deliverable arrangements were accounted for as a single unit of accounting because we did not have objective and reliable evidence of fair value for certain of our deliverables. Additionally, in these situations, we deferred the direct costs of a professional services arrangement and amortized those costs over the same period as the professional services revenue is recognized.

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Revenue Recognition (Topic 605), Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13) which amended the previous multiple-deliverable arrangements accounting guidance. Pursuant to the updated guidance, objective and reliable evidence of fair value of the deliverables to be delivered is no longer required in order to account for deliverables in a multiple-deliverable arrangement separately. Instead, arrangement consideration is allocated to deliverables based on their relative selling price.

In the first quarter of fiscal 2012, we adopted this updated accounting guidance on a prospective basis. We have applied the new accounting guidance to those multiple-deliverable arrangements entered into or materially modified on or after February 1, 2011 which is the beginning of our fiscal year.

The adoption of this updated accounting guidance did not have a material impact on our financial condition, results of operations or cash flows. As of July 31, 2011, the deferred professional services revenue and deferred costs under the previous accounting guidance are $49.6 million and $23.2 million, respectively, which will continue to be recognized over the related remaining subscription period.

Under the updated accounting guidance, in order to treat deliverables in a multiple-deliverable arrangement as separate units of accounting, the deliverables must have standalone value upon delivery. If the deliverables have standalone value upon delivery, we account for each deliverable separately. Subscription services have standalone value as such services are often sold separately. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer s satisfaction with the professional services work. To date, we have concluded that all of the professional services included in multiple-deliverable arrangements executed have standalone value.

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

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

We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the geographic area where our services are sold, our price lists, our go-to-market strategy and historical contractually stated prices. The determination of BESP is made through consultation with and approval by management, taking into consideration the go-to-market strategy. As our go-to-market strategies evolve, we

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may modify our pricing practices in the future, which could result in changes in relative selling prices, including both VSOE and BESP.

Deferred Revenue. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription service described above and is recognized as the revenue recognition criteria are met. We generally invoice customers in annual or quarterly installments.

Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements.

Billings against professional services arrangements entered into prior to February 1, 2011 will generally be added to deferred revenue and recognized over the remaining related subscription contract term.

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

Deferred Commissions. We defer commission payments to our direct sales force. The commissions are deferred and amortized to sales expense over the non-cancelable terms of the related subscription contracts with our customers, which are typically 12 to 24 months. The commission payments, which are paid in full the month after the customer s service commences, are a direct and incremental cost of the revenue arrangements. The deferred commission amounts are recoverable through the future revenue streams under the non-cancelable customer contracts. We believe this is the preferable method of accounting as the commission charges are so closely related to the revenue from the non-cancelable customer contracts that they should be recorded as an asset and charged to expense over the same period that the subscription revenue is recognized.

During the six months ended July 31, 2011, we deferred $46.6 million of commission expenditures and we amortized $49.6 million to sales expense. During the same period a year ago, we deferred $39.6 million of commission expenditures and we amortized $37.6 million to sales expense. Deferred commissions on our condensed consolidated balance sheets totaled $113.7 million at July 31, 2011 and $116.6 million at January 31, 2011.

Business Combinations. We recognize separately from goodwill the fair value of assets acquired and liabilities assumed. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. We use the best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date. Our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill. 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 our condensed consolidated statements of operations.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly and record any adjustments to the preliminary estimates to goodwill provided that we are within the measurement period and we continue to collect information in order to determine their estimated fair values as of the date of acquisition. Subsequent to the measurement period or our final determination of the estimated value of the tax allowance or contingency, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes in the condensed consolidated statements of operations.

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Stock-Based Awards. We recognize the fair value of our stock awards on a straight-line basis over the requisite service period of the award which is the vesting term of generally four years.

We recognized stock-based expense of $102.2 million during the six months ended July 31, 2011. The requirement to expense stock-based awards will continue to materially reduce our reported results of operations. As of July 31, 2011, we had an aggregate of $582.6 million of stock compensation remaining to be amortized to expense over the remaining requisite service period of the underlying awards. We currently expect this stock compensation balance to be amortized as follows: $114.0 million during the remaining six months of fiscal 2012; $193.3 million during fiscal 2013; $163.2 million during fiscal 2014; $106.0 million during fiscal 2015 and $6.1 million during fiscal 2016. These amounts reflect only outstanding stock awards as of July 31, 2011 and assume no forfeiture activity. We expect to continue to issue stock-based awards to our employees in future periods, which will increase the stock compensation amortization in such future periods.

We recognize as an operating expense the payroll and social tax costs, as applicable by jurisdiction, when stock options are exercised. The impact of stock-based expense in the future is dependent upon, among other things, the timing of when we hire additional employees, the effect of long-term incentive strategies involving stock awards in order to continue to attract and retain employees, the total number of stock awards granted, the fair value of the stock awards at the time of grant, changes in estimated forfeiture assumption rates and the tax benefit that we may or may not receive from stock-based expenses. Additionally, we are required to use an option-pricing model to determine the fair value of stock option awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards.

As of July 31, 2011, there were 3.2 million restricted stock awards and units outstanding. We plan to continue awarding restricted stock to our employees in the future. The restricted stock, which upon vesting entitles the holder to one share of common stock for each restricted stock, has an exercise price of $0.001 per share, which is equal to the par value of our common stock, and vests over four years. The fair value of the restricted stock is based on our closing stock price on the date of grant, and compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period.

Income Taxes. We account for income taxes using the liability method, which requires the recognition of deferred tax assets or liabilities for the tax-effected temporary differences between the financial reporting and tax basis of our assets and liabilities and for net operating loss and tax credit carryforwards. The tax expense or benefit for unusual items, or certain adjustments to the valuation allowance are treated as discrete items in the interim period in which the events occur.

Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the calculation of deferred tax assets and liabilities, and changes in tax laws and accounting principles.

Strategic Investments. We report our investments in marketable equity securities at fair market value using the quoted prices in their respective active markets. We report our investments in non-marketable equity and debt securities, which consist of minority equity and debt investments in privately-held companies, at cost or fair value when an event or circumstance indicates an other-than-temporary decline in value has occurred. Management evaluates financial results, earnings trends, technology milestones and subsequent financing of these companies, as well as the general market conditions to identify indicators of other-than temporary impairment.

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Results of Operations

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

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Revenues:				
Subscription and support	$ 509,279	$ 368,951	$ 982,783	$ 719,663
Professional services and other	36,723	25,421	67,583	51,522
Total revenues	546,002	394,372	1,050,366	771,185
Cost of revenues:				
Subscription and support	89,144	48,981	164,387	93,038
Professional services and other	31,766	28,809	59,589	56,333
Total cost of revenues	120,910	77,790	223,976	149,371
Gross profit	425,092	316,582	826,390	621,814
Operating expenses:				
Research and development	73,393	42,930	138,685	83,052
Marketing and sales	283,001	182,401	537,472	358,268
General and administrative	84,446	61,569	168,784	117,762
Total operating expenses	440,840	286,900	844,941	559,082
Income (loss) from operations	(15,748)	29,682	(18,551)	62,732
Investment income	5,112	8,735	13,167	16,610
Interest expense	(3,846)	(7,185)	(7,517)	(14,245)
Other expense	(3,231)	(1,765)	(4,031)	(3,738)
Income (loss) before benefit (provision) for income taxes and noncontrolling interest	(17,713)	29,467	(16,932)	61,359
Benefit (provision) for income taxes	13,445	(12,884)	13,194	(24,900)
Consolidated net income (loss)	(4,268)	16,583	(3,738)	36,459
Less: Net income attributable to noncontrolling interest	0	(1,839)	0	(3,970)
Net income (loss) attributable to salesforce.com	$ (4,268)	$ 14,744	$ (3,738)	$ 32,489

	As of		
	July 31, 2011	January 31, 2011	July 31, 2010
Balance Sheet Data:			
Cash, cash equivalents and marketable securities	$ 1,286,658	$ 1,407,557	$ 1,858,928
Deferred revenue, current and noncurrent	935,266	934,941	683,019

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Revenues by geography:				

Americas	$ 366,916	$ 274,669	$ 706,934	$ 533,953
Europe	102,056	65,545	196,451	132,387
Asia Pacific	77,030	54,158	146,981	104,845
	$ 546,002	$ 394,372	$ 1,050,366	$ 771,185

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

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Cost of revenues	$ 4,379	$ 3,186	$ 8,030	$ 6,260
Research and development	11,188	4,041	19,027	8,143
Marketing and sales	27,114	12,317	50,901	24,527
General and administrative	11,913	7,071	24,194	14,153

Cost of revenues and marketing and sales expenses include the following amounts related to amortization of purchased intangibles (in thousands).

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Amortization of purchased intangibles:				
Cost of revenues	$ 16,373	$ 3,891	$ 25,468	$ 5,570
Marketing and sales	2,306	1,225	3,546	2,050

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

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Revenues:				
Subscription and support	93%	94%	94%	93%
Professional services and other	7	6	6	7
Total revenues	100	100	100	100
Cost of revenues:				
Subscription and support	16	13	15	12
Professional services and other	6	7	6	7
Total cost of revenues	22	20	21	19
Gross profit	78	80	79	81
Operating expenses:				
Research and development	13	11	13	11
Marketing and sales	52	46	52	47
General and administrative	16	16	16	15
Total operating expenses	81	73	81	73
Income (loss) from operations	(3)	7	(2)	8
Investment income	1	2	1	2
Interest expense	(1)	(2)	0	(2)
Other expense	0	0	0	0
	(3)	7	(1)	8

Income (loss) before benefit (provision) for income taxes and noncontrolling interest				
Benefit (provision) for income taxes	2	(3)	1	(3)
Consolidated net income (loss)	(1)	4	0	5
Less: Net income (loss) attributable to noncontrolling interest	0	0	0	(1)
Net income (loss) attributable to salesforce.com	(1)%	4%	0%	4%

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	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Revenues by geography:				
Americas	67%	70%	67%	69%
Europe	19	17	19	17
Asia Pacific	14	13	14	14
	100%	100%	100%	100%

	Three months ended July 31,		Six months ended July 31,	
	2011	2010	2011	2010
Stock based awards:				
Cost of revenues	1%	1%	1%	1%
Research and development	2	1	2	1
Marketing and sales	5	3	5	3
General and administrative	2	2	2	2

Three Months Ended July 31, 2011 and 2010

Revenues.

	Three Months Ended July 31,		Variance	
(In thousands)	2011	2010	Dollars	Percent
Subscription and support	$ 509,279	$ 368,951	$ 140,328	38%
Professional services and other	36,723	25,421	11,302	44%
Total revenues	$ 546,002	$ 394,372	$ 151,630	38%

Total revenues were $546.0 million for the three months ended July 31, 2011, compared to $394.4 million during the same period a year ago, an increase of $151.6 million, or 38 percent. Subscription and support revenues were $509.3 million, or 93 percent of total revenues, for the three months ended July 31, 2011, compared to $369.0 million, or 94 percent of total revenues, during the same period a year ago. The increase in subscription and support revenues was due primarily to new customers, upgrades and additional subscriptions from existing customers and improved renewal rates as compared to a year ago. The price per user per month for our three primary offerings, Professional Edition, Enterprise Edition and Unlimited Edition, in the quarter ended July 31, 2011 has remained substantially consistent relative to prior periods. Professional services and other revenues were $36.7 million, or seven percent of total revenues, for the three months ended July 31, 2011, compared to $25.4 million, or six percent of total revenues, for the same period a year ago. The increase in professional services and other revenues was due primarily to the improved utilization of existing headcount and a small benefit from the prospective adoption of the new revenue accounting guidance for multiple-deliverable arrangements.

Revenues in Europe and Asia Pacific accounted for $179.1 million, or 33 percent of total revenues, for the three months ended July 31, 2011, compared to $119.7 million, or 30 percent of total revenues, during the same period a year ago, an increase of $59.4 million, or 50 percent. The increase in revenues outside of the Americas was the result of the increasing acceptance of our service, our focus on marketing our service internationally and improved renewal rates. Additionally, the value of the U.S. dollar relative to foreign currencies contributed to an increase in U.S. dollar revenues outside of the Americas for the three months ended July 31, 2011 as compared to the same period a year ago. The foreign currency impact had the effect of increasing our aggregate revenues by $18.2 million compared to the same period a year ago. As part of our overall growth, we expect the percentage of our revenue generated outside of the Americas to continue to increase as a percentage of our total revenues worldwide.

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Cost of Revenues.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Subscription and support	$ 89,144	$ 48,981	$ 40,163
Professional services and other	31,766	28,809	2,957
Total cost of revenues	$ 120,910	$ 77,790	$ 43,120
Percent of total revenues	22%	20%	

Cost of revenues was $120.9 million, or 22 percent of total revenues, for the three months ended July 31, 2011, compared to $77.8 million, or 20 percent of total revenues, during the same period a year ago, an increase of $43.1 million. The increase in absolute dollars was primarily due to an increase of $3.6 million in employee-related costs, an increase of $9.7 million in service delivery costs, primarily due to our efforts in increasing data center capacity, an increase of $18.9 million in depreciation and amortization expenses, $12.5 million of which related to the amortization of acquired developed technology, an increase of $7.8 million in outside subcontractor and other service costs, an increase of $1.6 million in allocated overhead and an increase of $1.2 million in stock-based expenses. Gross profit margins for professional services and other improved over the same period a year ago primarily due to the improved utilization of existing headcount, a reduction in non-billable headcount since July 31, 2010 and a small benefit from the prospective adoption of the new revenue accounting guidance for multiple-deliverable arrangements.

We intend to continue to invest additional resources in our enterprise cloud computing application service and data center capacity. 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 future periods.

Research and Development.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Research and development	$ 73,393	$ 42,930	$ 30,463
Percent of total revenues	13%	11%	

Research and development expenses were $73.4 million, or 13 percent of total revenues, for the three months ended July 31, 2011, compared to $42.9 million, or 11 percent of total revenues, during the same period a year ago, an increase of $30.5 million. The increase in absolute dollars was due to an increase of $18.6 million in employee-related costs, an increase of $7.1 million in stock-based expenses, an increase of $2.5 million in allocated overhead and an increase of $1.0 million in test data lab costs. We increased our research and development headcount by 56 percent since July 31, 2010 in order to improve and extend our service offerings and develop new technologies. Some of the increase in headcount was due to acquired businesses.

Marketing and Sales.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Marketing and sales	$ 283,001	$ 182,401	$ 100,600
Percent of total revenues	52%	46%	

Marketing and sales expenses were $283.0 million, or 52 percent of total revenues, for the three months ended July 31, 2011, compared to $182.4 million, or 46 percent of total revenues, during the same period a year

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ago, an increase of $100.6 million. The increase in absolute dollars was primarily due to increases of $62.6 million in employee-related costs, $14.8 million in stock-based expenses, $7.2 million in advertising, marketing and event costs, $5.4 million in allocated overhead and the preliminary settlement of the California wage and hour case discussed in Note 6. Our marketing and sales headcount increased by 44 percent since July 31, 2010 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. Some of the increase in headcount was due to acquired businesses.

General and Administrative.

	Three Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
General and administrative	$ 84,446	$ 61,569	$ 22,877
Percent of total revenues	16%	16%	

General and administrative expenses were $84.4 million, or 16 percent of total revenues, for the three months ended July 31, 2011, compared to $61.6 million, or 16 percent of total revenues, during the same period a year ago, an increase of $22.9 million. The increase was primarily due to an increase of $19.6 million in employee-related costs and an increase in stock-based expenses. Our general and administrative headcount increased by 40 percent since July 31, 2010 as we added personnel to support our growth.

Income (loss) from operations.

	Three Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Income (loss) from operations	$ (15,748)	$ 29,682	$ (45,430)
Percent of total revenues	(3)%	7%	

Loss from operations for the three months ended July 31, 2011 was $15.7 million and included $54.6 million of stock-based expenses and $18.7 million of amortization of purchased intangibles. During the same period a year ago, operating income was $29.7 million and included $26.6 million of stock-based expenses and $5.1 million of amortization of purchased intangibles.

Investment income.

	Three Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Investment income	$ 5,112	$ 8,735	$ (3,623)
Percent of total revenues	1%	2%	

Investment income consists of income on cash and marketable securities balances. Investment income was $5.1 million for the three months ended July 31, 2011 and was $8.7 million during the same period a year ago. The decrease was primarily due to increased realized losses from sales of marketable securities, the decrease in marketable securities balances and lower interest rates.

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Interest expense.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Interest expense	$ (3,846)	$ (7,185)	$ 3,339
Percent of total revenues	(1)%	(2)%	

Interest expense consists primarily of interest on our Notes and capital leases. Interest expense was $3.8 million, net of interest costs capitalized, for the three months ended July 31, 2011 and was $7.2 million during the same period a year ago. During the three months ended July 31, 2011, we capitalized $4.0 million of interest costs related to major construction projects, specifically our campus project, which began during the fourth quarter of fiscal 2011, and our capitalized internal-use software development costs. Capitalized interest during the same period a year ago was immaterial. We will continue to capitalize interest on these projects until these assets are ready for service.

Other expense.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Other expense	$ (3,231)	$ (1,765)	$ (1,466)

Other expense primarily consists of foreign currency transaction gains and losses. Other expense increased due to realized and unrealized losses on foreign currency transactions for the three months ended July 31, 2011 compared to the same period a year ago.

Benefit (provision) for Income Taxes.

(In thousands)	Three Months Ended July 31, 2011	2010	Variance Dollars
Benefit (provision) for income taxes	$ 13,445	$ (12,884)	$ 26,329
Effective tax rate	76%	44%	

The benefit for income taxes was $13.4 million for the three months ended July 31, 2011, compared to an income tax provision of $12.9 million during the same period a year ago.

Our effective tax rate for the three months ended July 31, 2011 was 76 percent, which was higher than the federal statutory rate of 35 percent. The higher tax rate was attributable to a detrimental foreign tax differential and non-deductible acquisition expenses, offset by state income taxes, Federal and California tax credits and the tax benefit from the May 2011 acquisition of Radian6. The combined effect of these tax items is large and when compared to a small net loss before taxes resulted in the higher effective tax rate. Our effective tax rate of 44 percent for the three months ended July 31, 2010 was higher than the federal statutory rate of 35 percent primarily due to state income taxes, a detrimental foreign tax rate differential, non-deductible acquisition expenses and the unfavorable impact of a change in California tax law, which was partially offset by California tax credits.

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Six Months Ended July 31, 2011 and 2010

Revenues.

(In thousands)	Six Months Ended July 31, 2011	2010	Variance Dollars	Percent
Subscription and support	$ 982,783	$ 719,663	$ 263,120	37%
Professional services and other	67,583	51,522	16,061	31%
Total revenues	$ 1,050,366	$ 771,185	$ 279,181	36%

Total revenues were $1.05 billion for the six months ended July 31, 2011, compared to $771.2 million during the same period a year ago, an increase of $279.2 million, or 36 percent. Subscription and support revenues were $982.8 million, or 94 percent of total revenues, for the six months ended July 31, 2011, compared to $719.7 million, or 93 percent of total revenues, during the same period a year ago. The increase in subscription and support revenues was due primarily to new customers, upgrades and additional subscriptions from existing customers and improved renewal rates as compared to a year ago. The price per user per month for our three primary offerings, Professional Edition, Enterprise Edition and Unlimited Edition, in the six months ended July 31, 2011 has remained substantially consistent relative to prior periods. Professional services and other revenues were $67.6 million, or six percent of total revenues, for the six months ended July 31, 2011, compared to $51.5 million, or seven percent of total revenues, for the same period a year ago. The increase in professional services and other revenues was due primarily to the improved utilization of existing headcount, and a small benefit from the prospective adoption of the new revenue accounting guidance for multiple-deliverable arrangements.

Revenues in Europe and Asia Pacific accounted for $343.4 million, or 33 percent of total revenues, for the six months ended July 31, 2011, compared to $237.2 million, or 31 percent of total revenues, during the same period a year ago, an increase of $106.2 million, or 45 percent. The increase in revenues outside of the Americas was the result of the increasing acceptance of our service, our focus on marketing our service internationally and improved renewal rates. Additionally, the value of the U.S. dollar relative to foreign currencies contributed to an increase in U.S. dollar revenues outside of the Americas for the six months ended July 31, 2011 as compared to the same period a year ago. The foreign currency impact had the effect of increasing our aggregate revenues by $25.8 million compared to the same period a year ago. As part of our overall growth, we expect the percentage of our revenue generated outside of the Americas to continue to increase as a percentage of our total revenues worldwide.

Cost of Revenues.

(In thousands)	Six Months Ended July 31, 2011	2010	Variance Dollars
Subscription and support	$ 164,387	$ 93,038	$ 71,349
Professional services and other	59,589	56,333	3,256
Total cost of revenues	$ 223,976	$ 149,371	$ 74,605
Percent of total revenues	21%	19%	

Cost of revenues was $224.0 million, or 21 percent of total revenues, for the six months ended July 31, 2011, compared to $149.4 million, or 19 percent of total revenues, during the same period a year ago, an increase of $74.6 million. The increase in absolute dollars was primarily due to an increase of $5.1 million in employee-related costs, an increase of $18.6 million in service delivery costs, primarily due to our efforts in increasing data center capacity, an increase of $31.6 million in depreciation and amortization expenses, $19.9 million of which related to the amortization of acquired developed technology, an increase of $13.8 million in outside

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subcontractor and other service costs, an increase of $3.2 million in allocated overhead and an increase of $1.8 million in stock-based expenses. Gross profit margins for professional services and other improved over the same period a year ago primarily due to the improved utilization of existing headcount, a reduction in non-billable headcount since July 31, 2010 and a small benefit from the prospective adoption of the new revenue accounting guidance for multiple-deliverable arrangements.

We intend to continue to invest additional resources in our enterprise cloud computing application service and data center capacity. 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 future periods.

Research and Development.

	Six Months Ended July 31,		
(In thousands)	**2011**	**2010**	**Variance Dollars**
Research and development	$ 138,685	$ 83,052	$ 55,633
Percent of total revenues	13%	11%	

Research and development expenses were $138.7 million, or 13 percent of total revenues, for the six months ended July 31, 2011, compared to $83.1 million, or 11 percent of total revenues, during the same period a year ago, an increase of $55.6 million. The increase in absolute dollars was due to an increase of $35.8 million in employee-related costs, an increase of $10.9 million in stock-based expenses, an increase of $5.6 million in allocated overhead and an increase of $1.6 million in test data lab costs. We increased our research and development headcount by 56 percent since July 31, 2010 in order to improve and extend our service offerings and develop new technologies. Some of the increase in headcount was due to acquired businesses.

Marketing and Sales.

	Six Months Ended July 31,		
(In thousands)	**2011**	**2010**	**Variance Dollars**
Marketing and sales	$ 537,472	$ 358,268	$ 179,204
Percent of total revenues	52%	47%	

Marketing and sales expenses were $537.5 million, or 52 percent of total revenues, for the six months ended July 31, 2011, compared to $358.3 million, or 47 percent of total revenues, during the same period a year ago, an increase of $179.2 million. The increase in absolute dollars was primarily due to increases of $116.2 million in employee-related costs, $26.4 million in stock-based expenses, $12.8 million in advertising, marketing and event costs, $13.1 million in allocated overhead and the preliminary settlement of the California wage and hour case discussed in Note 6. Our marketing and sales headcount increased by 44 percent since July 31, 2010 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. Some of the increase in headcount was due to acquired businesses.

General and Administrative.

	Six Months Ended July 31,		
(In thousands)	**2011**	**2010**	**Variance Dollars**
General and administrative	$ 168,784	$ 117,762	$ 51,022
Percent of total revenues	16%	15%	

General and administrative expenses were $168.8 million, or 16 percent of total revenues, for the six months ended July 31, 2011, compared to $117.8 million, or 15 percent of total revenues, during the same period a year

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ago, an increase of $51.0 million. The increase was primarily due to an increase of $36.8 million in employee-related costs, an increase of $10.0 million in stock-based expenses, and increases in depreciation and amortization, infrastructure costs and professional and outside service costs. Our general and administrative headcount increased by 40 percent since July 31, 2010 as we added personnel to support our growth.

Income (loss) from operations.

	Six Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Income (loss) from operations	$ (18,551)	$ 62,732	$ (81,283)
Percent of total revenues	(2)%	8%	

Loss from operations for the six months ended July 31, 2011 was $18.6 million and included $102.2 million of stock-based expenses and $29.0 million of amortization of purchased intangibles. During the same period a year ago, operating income was $62.7 million and included $53.1 million of stock-based expenses and $7.6 million of amortization of purchased intangibles.

Investment income.

	Six Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Investment income	$ 13,167	$ 16,610	$ (3,443)
Percent of total revenues	1%	2%	

Investment income consists of income on cash and marketable securities balances. Investment income was $13.2 million for the six months ended July 31, 2011 and was $16.6 million during the same period a year ago. The decrease was primarily due to increased realized losses from sales of marketable securities, the decrease in marketable securities balances and lower interest rates.

Interest expense.

	Six Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Interest expense	$ (7,517)	$ (14,245)	$ 6,728
Percent of total revenues	0%	(2)%	

Interest expense consists primarily of interest on our Notes and capital leases. Interest expense was $7.5 million, net of interest costs capitalized, for the six months ended July 31, 2011 and was $14.2 million during the same period a year ago. During the six months ended July 31, 2011, we capitalized $7.9 million of interest costs related to major construction projects, specifically our campus project, which began during the fourth quarter of fiscal 2011, and our capitalized internal-use software development costs. Capitalized interest during the same period a year ago was immaterial. We will continue to capitalize interest on these projects until these assets are ready for service.

Other expense.

	Six Months Ended July 31,		Variance
(In thousands)	**2011**	**2010**	**Dollars**
Other expense	$ (4,031)	$ (3,738)	$ (293)

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Other expense primarily consists of foreign currency transaction gains and losses. Other expense increased due to realized and unrealized losses on foreign currency transactions for the six months ended July 31, 2011 compared to the same period a year ago.

Benefit (provision) for Income Taxes.

(In thousands)	Six Months Ended July 31, 2011	2010	Variance Dollars
Benefit (provision) for income taxes	$ 13,194	$ (24,900)	$ 38,094
Effective tax rate	78%	41%	

The benefit for income taxes was $13.2 million for the six months ended July 31, 2011, compared to an income tax provision of $24.9 million during the same period a year ago.

Our effective tax rate for the six months ended July 31, 2011 was 78 percent, which was higher than the federal statutory tax rate of 35 percent. The higher tax rate was attributable to a detrimental foreign tax differential and non-deductible acquisition expenses, offset by state income taxes, Federal and California tax credits and the tax benefit from the May 2011 acquisition of Radian6. The combined effect of these tax items is large and when compared to a small net loss before taxes resulted in the higher effective tax rate. Our effective tax rate of 41 percent for the six months ended July 31, 2010 was higher than the federal statutory rate of 35 percent primarily due to state income taxes, a detrimental foreign tax rate differential, non-deductible acquisition expenses and the unfavorable impact of a change in California tax law, which was partially offset by California tax credits.

New Accounting Pronouncement

In December 2010, the FASB issued Accounting Standards Update No. 2010-29, *Disclosure of Supplementary Pro Forma Information for Business Combinations (Topic 805) Business Combinations* (ASU 2010-29), to improve consistency in how the pro forma disclosures are calculated. Additionally, ASU 2010-29 enhances the disclosure requirements and requires description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to a business combination. ASU 2010-29 is effective for us in fiscal 2013 and should be applied prospectively to business combinations for which the acquisition date is after the effective date. Early adoption is permitted. We do not believe the impact of the pending adoption of ASU 2010-29 will have a significant effect on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220) Presentation of Comprehensive Income* (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for us in fiscal 2013 and should be applied retrospectively. We are currently evaluating the impact of our pending adoption of ASU 2011-05 on our consolidated financial statements.

Liquidity and Capital Resources

At July 31, 2011, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $1.3 billion and accounts receivable of $342.4 million.

Net cash provided by operating activities was $222.5 million during the six months ended July 31, 2011 and $219.3 million during the same period a year ago. Cash provided by operating activities has historically been affected by: the amount of net income (loss); sales of subscriptions, support and professional services; changes in working capital accounts, particularly increases and seasonality in accounts receivable and deferred revenue as

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described above, the timing of commission and bonus payments, and the timing of collections from large enterprise customers; and add-backs of non-cash expense items such as depreciation and amortization, amortization of debt discount and the expense associated with stock-based awards.

Net cash used in investing activities was $242.6 million during the six months ended July 31, 2011 and $923.5 million during the same period a year ago. The net cash used in investing activities during the six months ended July 31, 2011 primarily related to the purchase of Radian6 in May 2011, the purchase of Manymoon in February 2011, investment of cash balances, capital expenditures and strategic investments offset by proceeds from sales and maturities of marketable securities.

Net cash provided by financing activities was $48.4 million during the six months ended July 31, 2011 and $98.5 million during the same period a year ago. Net cash provided by financing activities during the six months ended July 31, 2011 consisted primarily of $74.6 million of proceeds from the exercise of employee stock options and $4.1 million of excess tax benefits from employee stock plans, offset by $14.1 million of principal payments on capital leases and $16.2 million of contingent consideration payments.

In January 2010, we issued the Notes and concurrently entered into convertible notes hedges (the Note Hedges) and separate warrant transactions (the Warrants). The Notes will mature on January 15, 2015, unless converted earlier.

For 20 trading days during the 30 consecutive trading days ended April 30, 2011 and July 31, 2011, our common stock traded at a price exceeding 130 percent of the conversion price of $85.36 per share applicable to the Notes. Accordingly, based on the terms of the Notes, the Notes were convertible at the option of the holder as of July 31, 2011 and are convertible at the holders option for the quarter ending October 31, 2011. Upon conversion of any Notes, we will deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater than the principal amount of the Notes, shares of our common stock, cash or a combination of both. Therefore, for the quarter ending October 31, 2011, the Notes will remain classified as a current liability on our condensed consolidated balance sheet.

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

As of July 31, 2011, we have a total of $10.6 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 mature at various dates through September 2021.

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. Additionally, we currently do not have a bank line of credit. We may in the future raise additional funds for general corporate purposes.

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Our principal commitments consist of obligations under leases for office space and co-location facilities for data center capacity and our development and test data center, and computer equipment and certain fixed assets. At July 31, 2011, the future non-cancelable minimum payments under these commitments were as follows (in thousands):

	Capital Leases	Operating Leases
Fiscal Period:		
Remaining six months of fiscal 2012	$ 13,739	$ 60,728
Fiscal 2013	23,522	114,509
Fiscal 2014	19,070	91,056
Fiscal 2015	326	52,395
Fiscal 2016	0	47,169
Thereafter	0	123,860
Total minimum lease payments	56,657	$ 489,717
Less: amount representing interest	(2,572)	
Present value of capital lease obligations	$ 54,085	

Our 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.

We also have a contractual obligation to begin construction on the undeveloped land we purchased in fiscal 2011 by September 2014. If we do not commence construction by this date we will be subject to certain monetary penalties due to a third-party.

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

During the remaining six months of fiscal 2012, we may enter into arrangements to acquire or invest in complementary businesses, joint ventures, services and technologies, and intellectual property rights. While we believe we have sufficient financial resources to do so, we may be required to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling, Canadian dollar, Swiss franc, Singapore dollar, Japanese Yen and Australian dollar. We seek to minimize the impact of certain foreign currency fluctuations by hedging certain balance sheet exposures with foreign currency forward contracts. Any gain or loss from settling these contracts is offset by the loss or gain derived from the underlying balance sheet exposures. In accordance with our policy, the hedging contracts we enter into have maturities of less than three months. Additionally, by policy, we do not enter into any hedging contracts for trading or speculative purposes.

Interest rate sensitivity

We had cash, cash equivalents and marketable securities totaling $1.3 billion at July 31, 2011. 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 single A or better. The cash, cash equivalents and short-term marketable securities are held for working capital purposes. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

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

An immediate increase or decrease in interest rates of 100-basis points at July 31, 2011 could result in a $22.6 million market value increase or reduction 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, 2011, we had cash, cash equivalents and marketable securities totaling $1.4 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 $27.7 million.

Market Risk and Market Interest Risk

In January 2010, we issued at par value $575.0 million of 0.75% Notes. Holders may convert their Notes prior to maturity upon the occurrence of certain circumstances. Upon conversion, we would pay the holder an amount of cash equal to the principal amount of the Notes. Amounts in excess of the principal amount, if any, may be paid in cash or stock at our option. Concurrent with the issuance of the Notes, we entered into separate note hedging transactions and the sale of warrants. These separate transactions were completed to reduce the potential economic dilution from the conversion of the Notes.

For 20 trading days during the 30 consecutive trading days ended July 31, 2011, our common stock traded at a price exceeding 130 percent of the conversion price of $85.36 per share applicable to the Notes. Accordingly, based on the terms of the Notes, the Notes were convertible at the option of the holder as of July 31, 2011 and are convertible at the holders option for the quarter ending October 31, 2011. Upon conversion of any Notes, we will deliver cash up to the principal amount of the Notes and, with respect to any excess conversion value greater

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than the principal amount of the Notes, shares of our common stock, cash or a combination of both. Therefore, for the quarter ending October 31, 2011, the Notes will remain classified as a current liability on our condensed consolidated balance sheet.

The Notes have a fixed annual interest rate of 0.75% and therefore, we do not have economic interest rate exposure on the Notes. However, the value of the Notes is exposed to interest rate risk. Generally, the fair market value of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our Notes is affected by our stock price. The carrying value of our Notes was $484.1 million as of July 31, 2011. This represents the liability component of the $574.9 million principal balance as of July 31, 2011. The total estimated fair value of our Notes at July 31, 2011 was $1.0 billion and the fair value was determined based on the closing trading price per $100 of the Notes as of the last day of trading for the second quarter of fiscal 2012, which was $176.84.

We have an investment portfolio that includes strategic investments in public and privately-held companies, many of which are in the development stage. When our ownership interests are less than 20 percent and we do not have the ability to exert significant influence, we account for investments in non-marketable equity and debt securities using the cost method of accounting. Otherwise, we account for the investments using the equity method of accounting. At July 31, 2011, the fair value of these investments was $40.3 million.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

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

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

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

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

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal matters arising from the normal course of business activities. These include claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, wage and hour, and other matters.

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 lawsuits. We evaluate these claims and lawsuits with respect to their potential merits, our potential defenses and counter claims, 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 litigation, regardless of its merits, is inherently uncertain. Any intellectual property claims and other lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, lead to attempts on the part of other parties to seek similar claims and, in the case of intellectual property claims, require us to change our technology, change our business practices and/or pay monetary damages or enter into short- or long-term royalty or licensing agreements.

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, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. In management s opinion, resolution of these matters is not expected to have a material adverse impact on our condensed consolidated results of operations, cash flows or financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect our future results of operations or cash flows, or both, of a particular quarter.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

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

Because our service is complex and we have incorporated a variety of new computer hardware and software which is developed in-house and acquired from third-party vendors, our service may have errors or defects that users identify after they begin using it that could result in unanticipated downtime for our subscribers and harm our reputation and our business. Internet-based 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 our service and new errors in our existing service may be detected in the future. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. Since our customers use our service for important aspects of their business, any errors, defects,

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disruptions in service or other performance problems with our service could hurt our reputation and may damage our customers businesses. If that occurs, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

Interruptions or delays in service from our third-party data center hosting facilities could impair the delivery of our service and harm our business.

We currently serve our customers from third-party data center hosting facilities located in the United States and Singapore. Any damage to, or failure of, our systems generally could result in interruptions in our service. As we continue to add data centers and add capacity in our existing data centers, 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 service. Further, any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, our production environment and all of our customers data is currently replicated in near real-time in a facility located on the east coast of the United States. Companies and products added through acquisition may be temporarily served through alternate facilities. We do not control the operation of any of these facilities, and they are 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. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

If our security measures are breached and unauthorized access is obtained to a customer s data or our data or our information technology systems, our service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. These security measures may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and result in someone obtaining unauthorized access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our customers data or our data, including our intellectual property and other confidential business information, or our information technology systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third-party technology providers, whose applications are available through our AppExchange directory, to access their customer data. Because we do not control the transmissions between our customers and third-party AppExchange technology providers, or the processing of such data by third-party AppExchange technology providers, we cannot ensure the complete integrity or security of such transmissions or processing. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, disrupt our business, lead to legal liability and negatively impact our future sales.

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Because we recognize revenue from subscriptions for our service over the term of the subscription, downturns or upturns in sales 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 24 months, although terms can range from one to 60 months. As a result, most of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be immediately reflected in our revenue results for that quarter. Such a decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our service, and potential changes in our rate of renewals 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. In addition, we may be unable to adjust our cost structure to reflect the changes in revenues.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically 12 to 24 months, and in fact, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or renew for lower cost editions of our service. We cannot accurately predict renewal rates, particularly for our enterprise customers who purchase a large number of subscriptions under multiyear contracts and for our small and medium size business customers. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers ability to continue their operations and spending levels, decreases in the number of users at our customers and deteriorating general economic conditions. If our customers do not renew their subscriptions for our service or reduce the number of paying subscriptions at the time of renewal, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service 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. If our efforts to upsell to our customers are not successful, our business may suffer.

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

Due to our evolving business model and the unpredictability of future general economic and financial market conditions, we may not be able to accurately forecast our rate of growth. We plan our expense levels and investment on estimates of future revenue and future anticipated rate of growth. We may not be able to adjust our spending quickly enough if the addition of new subscriptions or the renewal rate for existing subscriptions falls short of our expectations.

As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis. Our recent revenue growth rates may not be sustainable and may decline in the future. We believe that period-to-period comparisons of our revenues, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

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 include claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, wage and hour, and other matters.

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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 claiming that we have infringed the intellectual property rights of others. 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. Many of our subscription agreements require us to indemnify our customers for third-party intellectual property infringement claims, which would increase the cost to us of an adverse ruling on such a claim.

The outcome of any litigation, regardless of its merits, is inherently uncertain. Any claims and lawsuits, and the disposition of such claims and lawsuits, could be time-consuming and expensive to resolve, divert management attention from executing our business plan, 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 and/or 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 service 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, a resolution of a legal matter could materially affect our future results of operation or cash flows or both of a particular quarter.

In addition, our exposure to risks associated with various claims, including the use of intellectual property, may be increased as a result of acquisitions. 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. 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.

Our quarterly results can fluctuate and our stock price and the value of your investment could decline substantially.

Our quarterly operating results are likely to fluctuate. For example, our 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.

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 renewal rates for our service;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the number of new employees added;
- changes in our pricing policies whether initiated by us or as a result of intense competition;
- the cost, timing and management effort for the introduction of new features to our service;
- the rate of expansion and productivity of our sales force;

the length of the sales cycle for our service;

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new product and service introductions by our competitors;

our success in selling our service to large enterprises;

variations in the revenue mix of editions of our service;

technical difficulties or interruptions in our service;

expenses related to developing our new global headquarters and increasing our data center capacity and expanding our data centers domestically and internationally;

changes in foreign currency exchange rates;

changes in interest rates and our mix of investments, which would impact our return on our investments in cash and marketable securities;

conditions, particularly sudden changes, in the financial markets have and may continue to impact the value of and access to our investment portfolio;

changes in the effective tax rates;

general economic conditions that may adversely affect either our customers ability or willingness to purchase additional subscriptions or upgrade their service, or delay a prospective customers purchasing decision, or reduce the value of new subscription contracts, or affect renewal rates;

timing of additional investments in our enterprise cloud computing application and platform services and in our consulting service;

changes in deferred revenue balances due to the seasonal nature of our customer invoicing, changes in the average duration of our invoices, rate of renewals and the rate of new business growth;

regulatory compliance costs;

the timing of customer payments and payment defaults by customers;

costs associated with acquisitions of companies and technologies;

extraordinary expenses such as litigation or other dispute-related settlement payments;

conversion of the Notes at the election of the Note holders;

the impact of new accounting pronouncements; and

the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards ratably over their vesting schedules.

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

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

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

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced in the past a downturn in which economic activity was impacted

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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 conditions 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 renewal rates, all of which could adversely affect our operating results.

As we acquire companies or technologies, they could prove difficult to integrate, disrupt our business, dilute stockholder value and adversely affect our operating results and the value of your investment.

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

- the potential failure to achieve the expected benefits of the combination or acquisition;
- difficulties in and the cost of integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of entering new markets in which we have little or no experience or where competitors may have stronger market positions;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- potential loss of key employees;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- the inability to maintain relationships with customers and partners of the acquired business;
- the difficulty of incorporating acquired technology and rights into our products and services and of maintaining quality standards consistent with our brand;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into 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, and the loss of acquired deferred revenue;

delays in customer purchases due to uncertainty related to any acquisition;

the need to implement controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked such controls, procedures and policies;

challenges caused by distance, language and cultural differences; and

the tax effects of any such acquisitions.

In addition, if we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders may be diluted which could affect the market price of our common stock. Further, if we fail to properly evaluate and execute acquisitions or investments, our business and prospects may be seriously harmed and the value of your investment may decline.

We rely on third-party computer hardware and software that may be difficult to replace or which could cause errors or failures of our service.

We rely on computer hardware purchased or leased and software licensed from third parties in order to offer our service, including database software from Oracle Corporation. This hardware and software may not continue

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to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could harm our business.

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

The market for enterprise cloud computing application services is not as mature as the market for packaged enterprise software, and it is uncertain whether these services will achieve and sustain high levels of demand and market acceptance. Our success will depend to a substantial extent on the willingness of enterprises, large and small, to increase their use of enterprise cloud computing application services in general, and for CRM in particular. Many enterprises have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to an enterprise cloud computing application service. Furthermore, some enterprises may be reluctant or unwilling to use enterprise cloud computing application services because they have concerns regarding the risks associated with security capabilities, among other things, of the technology delivery model associated with these services. If enterprises do not perceive the benefits of enterprise cloud computing application services, then the market for these services may not develop at all, or it may develop more slowly than we expect, either of which would significantly adversely affect our operating results. In addition, we may make errors in predicting and reacting to relevant business trends, which could harm our business. Our success also depends on the willingness of third-party developers to build applications that are complementary to our service. Without the development of these applications, both current and potential customers may not find our service sufficiently attractive. In addition, for those customers who authorize a third-party technology partner access to their data, we do not warrant 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 warrant the third-party applications, which may expose us to potential claims, liabilities and obligations for applications we did not develop or sell.

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

- enterprise software application vendors;
- on-demand CRM application service providers;
- enterprise software application service providers;
- traditional platform development environment companies; and
- cloud computing development platform companies.

Many of our current and potential competitors enjoy substantial competitive advantages, such as greater name recognition, longer operating histories and larger marketing budgets, as well as substantially greater financial, technical and other resources. In addition, many of our current and potential competitors have established marketing relationships and access to larger customer bases, and have major distribution agreements with consultants, system integrators and resellers.

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As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Furthermore, because of these advantages, even if our service is more effective than the products that our competitors offer, potential customers might accept competitive products and services in lieu of purchasing our service. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

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

We derive substantially all of our revenue from subscriptions to our CRM enterprise cloud computing application service, and we expect this will continue for the foreseeable future. The market for our Force.com cloud computing platform is relatively new and it is uncertain whether our efforts will ever result in significant revenue for us. Further, the introduction of new services beyond the CRM market may not be successful, and early stage interest and adoption of such new services may not result in long term success or significant revenue for us. Our efforts to expand our service beyond the CRM market may not succeed and may reduce our revenue growth rate.

Additionally, if we are unable to develop enhancements to and new features for our existing service or new services that keep pace with rapid technological developments, our business will be harmed. The success of enhancements, new features and services depends on several factors, including the timely completion, introduction and market acceptance of the feature or edition. Failure in this regard may significantly impair our revenue growth. In addition, because our service is designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in timely bringing them to market. 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 service to operate effectively with future network platforms and technologies could reduce the demand for our service, result in customer dissatisfaction and 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, which has placed a strain on our management, administrative, operational and financial infrastructure. We anticipate that additional investments in our infrastructure and research and development spending will be required to scale our operations and increase productivity, to address the needs of our customers, to further develop and enhance our service, and to expand into new geographic areas.

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 and our reporting systems and procedures. 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. If we fail to successfully scale our operations and increase productivity, we will be unable to execute our business plan.

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

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

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.

Periodic changes of our sales organization can be disruptive and may negatively impact our revenues.

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. In the past, these changes sometimes resulted in a temporary lack of focus and reduced productivity; these effects could recur in connection with any future sales changes we might undertake and our rate of revenue growth could be negatively affected. 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.

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

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and many U.S. and international patent applications pending, we may be unable to obtain patent protection for the technology covered in our patent applications. 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. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is 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. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

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We might be required to spend significant resources 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. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

If we fail to develop our brands, our business may suffer.

We believe that developing and maintaining awareness of the salesforce.com brand and our other brands is critical to achieving widespread acceptance of our existing and future services and is an important element in attracting new customers. In the past, our efforts to build our brands have involved significant expense. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brands. If we fail to successfully promote and maintain our brands, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

We may not realize the anticipated benefits in connection with our purchase of undeveloped land in San Francisco where we plan to develop our global headquarters. If we do not realize these benefits, our financial performance will be negatively impacted.

In November 2010, we purchased approximately 14 acres of undeveloped real estate in San Francisco, California, including entitlements and improvements associated with the land, which we plan to develop into our global headquarters. We may not realize the anticipated benefits with respect to the purchase and future development of such real estate. We have devoted significant capital resources to the purchase, and we will be required to devote substantial additional resources in the future to building our global headquarters on such land, which may impact our liquidity and financial flexibility. We may not be able to obtain financing for development projects on favorable terms, or at all, or complete construction on schedule or within budget. Any delay or lack of available financing could result in increased construction costs and debt costs to fund such construction and development. In addition, our development efforts will otherwise be subject to various operational risks. We may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations. The construction costs and total investment amounts may exceed any estimates that we formulate, and projects may not be completed, or delivered as planned. Finally, real estate assets are not as liquid as certain other types of assets. In the event that we have a future need to sell this property, we may not be able to do so on favorable terms or at all.

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

Because we sell our service throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in the United States. For example, sales in Europe and Asia Pacific together represented approximately 30 percent of our total revenues for the year ended January 31, 2011, and we intend to continue to expand our international sales efforts. The risks and challenges associated with sales to customers outside the United States include:

- localization of our service, including translation into foreign languages and associated expenses;
- laws and business practices favoring local competitors;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- treatment of revenue from international sources and changes to tax codes, including being subject to foreign tax laws and being liable for paying withholding income or other taxes in foreign jurisdictions;
- regional data privacy laws that apply to the transmission of our customers data across international borders;

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foreign currency fluctuations and controls;

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;

regional economic conditions; and

regional political conditions.

Any of these factors could negatively impact our business and results of operations.

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

From time to time, we may become defendants in legal proceedings about which we are unable to assess our exposure and which could become significant liabilities upon judgment.

We may become defendants in legal proceedings from time to time. Companies in our industry have been subject to claims related to patent infringement and product liability, as well as contract and employment-related claims. We may not be able to accurately assess the risk related to these suits, and we may be unable to accurately assess our level of exposure.

Privacy concerns and laws, evolving regulation of the Internet and other domestic or foreign regulations may reduce the effectiveness of our solution and adversely affect our business.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers ability to use and share data, potentially reducing demand for CRM solutions and restricting our ability to store, process and share data with our customers.

Our customers can use our service to store contact and other personal or identifying information regarding their customers and contacts. Federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance with such privacy laws. Furthermore, privacy concerns may cause our customers customers to resist providing the personal data necessary to allow our customers to use our service effectively. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

For example, in the United States regulations such as the Gramm-Leach-Bliley Act, which protects and restricts the use of consumer credit and financial information, and the Health Insurance Portability and Accountability Act of 1996, which regulates the use and disclosure of personal health information, impose significant requirements and obligations on businesses that may affect the use and adoption of our service. The European Union has also adopted a data privacy directive that requires member states to impose restrictions on the collection and use of personal data that, in some respects, are more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States.

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All of these domestic and international legislative and regulatory initiatives may adversely affect our customers ability to collect and/or use demographic and personal information from their customers, which could reduce demand for our service. Many other jurisdictions have similar stringent privacy laws and regulations.

In addition to government activity, privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. If the gathering of personal information were to be curtailed in this manner, CRM solutions would be less effective, which may reduce demand for our service and harm our business.

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

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

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

Unanticipated changes in our effective tax rate could adversely affect our future results.

We are subject to income taxes in the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions.

Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the calculation of deferred tax assets and liabilities and changes in federal, state or international tax laws and accounting principles. Increases in our effective tax rate could materially affect our net results.

In addition, we are subject to income tax audits by many tax jurisdictions throughout the world. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

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

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services. The majority of our research and development activities, corporate headquarters, information technology systems, and other critical business operations, are located near major seismic faults in the San

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Francisco Bay Area. Because we do not carry earthquake insurance for direct quake-related losses, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

Risks Relating to Ownership of Our Common Stock and our Convertible Senior Notes due 2015

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

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the market price of our 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, deferred revenue, and other financial metrics and non-financial metrics, and how those results compare to analyst expectations;
- forward looking guidance to industry and financial analysts related to future revenue and earnings per share;
- the net increases in the number of customers, either independently or as compared with published expectations of industry, financial or other analysts that cover our company;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software or network problems;
- the economy as a whole, market conditions in our industry, and the industries of our customers;
- trading activity by a limited number of stockholders who together beneficially own a majority of our outstanding common stock;

the issuance of shares of common stock by us, whether in connection with an acquisition, a capital raising transaction or upon conversion of some or all of our outstanding $574.9 million of 0.75% convertible senior notes due January 15, 2015 (the Notes); and

any other factors discussed herein.

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.

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Provisions in our amended and restated certificate of incorporation and bylaws, Delaware law and our outstanding Notes 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:

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit the board of directors to establish the number of directors;
- provide that directors may only be removed for cause and only with the approval of 66 2/3 percent of our stockholders;
- 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);
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

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

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

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

As a result of our sale of the Notes in January 2010, we have a higher level of debt compared to historical periods. Our maintenance of this indebtedness could have important consequences because:

it may impair our ability to obtain additional financing in the future;

an increased portion of our cash flows from operations may have to be dedicated towards repaying the principal in 2015 or earlier if necessary; and

it may 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. Our operations may not generate sufficient cash to enable us to service our debt. If we fail to make a payment on our debt, we could be in default on such debt.

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The trading price of the Notes may be significantly affected by the market price of our common stock, which may be volatile, the general level of interest rates and our credit quality.

Because the Notes are convertible into cash equal to the principal amount of the Notes, and at our election, cash and/or shares of the Company s common stock for any amounts in excess of the principal amounts, the market price of our common stock may significantly affect the trading price of the Notes. See *The market price of our common stock is likely to be volatile and could subject us to litigation* above.

In addition, the general level of interest rates and our credit quality may significantly affect the trading price of the Notes.

We also cannot predict whether interest rates will rise or fall. During the term of the Notes, interest rates will be influenced by a number of factors, most of which are beyond our control. However, if interest rates increase, the option value of the Notes convertibility feature will increase, but the yield of the Notes will decrease, and if interest rates decrease, the option value of the Notes convertibility feature will decrease, but the yield of the notes will increase.

In addition, our credit quality may vary substantially during the term of the Notes and will be influenced by a number of factors, including variations in our cash flows and the amount of indebtedness we have outstanding. Any decrease in our credit quality could negatively impact the trading price of the Notes.

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

We entered into privately negotiated convertible note hedge transactions with the hedge counterparties concurrently with the issuance of the Notes. We also entered into privately negotiated warrant transactions with the hedge counterparties. Taken together, the convertible note hedge transactions and the warrant transactions are expected, but not guaranteed, to reduce the potential dilution with respect to our common stock upon conversion of the Notes.

As the hedge counterparties and their respective affiliates modify their hedge positions from time to time by entering into or unwinding various over-the-counter derivative transactions with respect to our common stock, and/or by purchasing or selling shares of our common stock or the Notes in privately negotiated transactions and/or open market transactions, their activities could adversely affect the market price of our common stock and the trading price of the Notes.

In addition, the hedge counterparties are financial institutions or affiliates of financial institutions, and we will be subject to the risk that these hedge counterparties may default under the convertible note hedge transactions.

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

As previously disclosed, the Company issued 436,167 shares of Company common stock to former stockholders of Radian6, in a private transaction exempt from the registration requirements of the Securities Act pursuant to Section 4(2), Regulation D and /or Regulation S under the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. REMOVED AND RESERVED

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

The Exhibits listed below are filed as part of this Form 10-Q

Exhibit 3.1(1)	Amended and Restated Certificate of Incorporation of Salesforce.com, Inc
Exhibit 3.2(2)	Amended and Restated Bylaws of salesforce.com, inc.
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS(3)	XBRL Instance Document
Exhibit 101.SCH(3)	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL(3)	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF(3)	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB(3)	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE(3)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference from the Company s registration statement on Form S-1 (No. 333-111289), Amendment No. 3, as filed with the Securities and Exchange Commission on April 20, 2004.

(2) Incorporated by reference from the Company s Form 8-K as filed with the Securities and Exchange Commission on January 14, 2011.

(3)

The financial information contained in these XBRL documents is unaudited and these are not the official publicly filed financial statements of salesforce.com, inc. The purpose of submitting these XBRL documents is to test the related format and technology, and, as a result, investors should continue to rely on the official filed version of the furnished documents and not rely on this information in making investment decisions. In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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SIGNATURES

Pursuant to the requirements 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: September 6, 2011

salesforce.com, inc.

/s/ Graham Smith
Graham Smith

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)