



2020 ANNUAL REPORT

As FY20 comes to a close, we'd like to extend our gratitude to our employees, customers, Trailblazers, partners, and all of their families. We're continually reminded, at times like these, that we are all connected, and we're grateful for each and every one of you.

At Salesforce, we're doing everything we can to help the world emerge strong from this crisis. By working together, we'll find a way through this. We look forward to continuing to do business with you all, and wish you the best in the new fiscal year.



FY20 HIGHLIGHTS

\$17.1 billion
FY20 Revenue, up 29% year over year

\$30.8 billion
Remaining Performance Obligation,* up 20% year over year

\$4.3 billion
Full Year Operating Cash Flow, up 27% year over year

49,000+
Employees

90%
of the Fortune 500 are Salesforce customers

4.9 million+
Hours contributed to the community since inception

* "Remaining Performance Obligation" represents future revenues that are under contract but have not yet been recognized.



Fellow shareholders,

As the world continues to deal with the unprecedented effects of the coronavirus, we hope you and your families are staying healthy and safe. This virus impacts everyone, reminding us that we are all truly connected and that we have obligations to each other.

At Salesforce, meeting our responsibilities to all our stakeholders has been an essential part of our culture since our founding 21 years ago. Today, we're unleashing the full power of our company to help our stakeholders navigate this pandemic, showing once again that business can be the greatest force for change.

Our first priority continues to be the health and safety of our employees and their families. Since early March, our nearly 50,000 global employees have been working productively from home. We also made a global commitment to not conduct significant layoffs for 90 days and to continue to pay our onsite service providers during this time of economic upheaval. Every week, our Executive Leadership team hosts a call with our entire global workforce to hear their concerns and take employee questions to ensure that we are all moving forward together.

With social distancing and cessation of travel, we are reimagining our in-person events and turning them into digital experiences. Rather than thousands of customers gathering in person, we are connecting with millions virtually. We launched Leading Through Change, a new broadcast series featuring industry luminaries that addresses key issues leaders are confronting in this pandemic. So far, we've hosted incredible leaders like BT Chief Executive Philip Jansen and Chef José Andrés.

At the same time, we're partnering closely with local communities. We're working tirelessly to help deliver personal protective equipment (PPE) to those most in need. To date, we've sourced 50 million units of PPE for doctors, nurses, and first responders on the front lines in the U.S., France, and India.

We've given more than \$10 million in grants to local and global organizations on the forefront of the response, including organizations such as the CDC Foundation, UCSF's COVID-19 Response Fund, the Italian Red Cross, the Madrid Food Bank, the French Red Cross, and the New York COVID-19 Emergency Fund. As always, we're matching employee donations to eligible organizations, and our employees are volunteering their time to support their local communities. In addition, Salesforce Care Small Business Grants will provide \$10,000 in capital to help keep businesses afloat as they work to replenish materials, pay salaries, or adapt their business model to overcome these challenging times.

Even as we help respond to the urgent needs of this crisis, we're delivering new solutions to help our customers succeed. Social distancing and cessation of travel have forced companies to accelerate their digital transformations, and Salesforce is helping them sell, service, market, conduct commerce, and collaborate from home. Thousands of customers have deployed our Salesforce Care rapid response solutions to help them stay connected to their employees, customers, and partners during these uncertain times. Organizations around the world have been able to quickly and easily deploy these solutions, which we made available free for 90 days. With Salesforce Care for Employee and Customer Support, organizations can quickly create an AI-powered employee help center, customer service, and contact center application. Thousands of small businesses have signed up for Salesforce Care for Small Business, which includes Essentials and Tableau Desktop.

We are supporting those on the front lines with our Salesforce Care for Health solution that provides free access to technology for emergency response and healthcare management teams. In just four days, Women's College Hospital in Toronto, Canada built an online COVID-19 self-assessment on Salesforce that is integrated with its hospital information system..

We're also helping governments and NGOs respond to the pandemic. In France, the government launched a website and hotline built on Service Cloud to help citizens find essential needs and resources while quarantined. And Tableau is offering an amazing free dashboard – the Tableau Data Hub – that's tracking the virus, based on data from the World Health Organization and other organizations, and which already has more than 700,000 users and more than 1 million views.

Our customers are depending on our technology to manage through the crisis. With Salesforce Virtual Personal Shopper, for example, retailers are providing their customers with 1-to-1 shopping experiences, even as their brick-and-mortar stores remain closed. Thousands of companies have been able to meet the increased volume of customer service inquiries with Einstein Bots, which can carry out automated conversations to handle common questions and hand off to a human agent if required.

At the same time, we are already beginning to plan for the next phase of this challenge – the recovery. We have to ensure that our employees can come back to work at our offices safely, and we have a comprehensive plan so that we're ready to hit the ground running. We'll also work together with our customers, partners, and communities as they recover and plan for what will be a new normal in the post-pandemic future. For example, we're helping workers reskill with our Trailhead learning platform because some jobs will change and new kinds of skills will be needed as we adjust to a new normal when we come out of this crisis.

The current pandemic has shown that digital is the lifeline for every business. In fact, the pandemic is accelerating the movement to the cloud, automation and a customer-centric mindset. As the leader in CRM, customers are looking to us for guidance and solutions in these uncharted and rapidly changing waters. In order to help our customers gain greater clarity and aid decision making, Salesforce has been synthesizing insights from multiple places including customer roundtables, research and work with partners. The resulting playbook includes short and medium term scenarios as well as quite detailed recommendations. You can access this playbook at salesforce.com/covid-19-response-playbook. As customers emerge from the crisis, they know they have to double down on digital and go faster to survive now and succeed in the post-COVID-19 future. The new normal will require companies to adopt new ways of conducting sales and service, marketing and commerce, and new ways of collaborating and reskilling workers. Every company will be motivated to digitally transform, and we'll be there for them as we recover from this global crisis and return to growth.

While we will be dealing with this pandemic and its effects on the global economy and our business over many months, this crisis has underscored the imperative of digital transformation that only Salesforce can provide with our Customer 360. We can reflect back on fiscal year 2020 as an indicator of how we are primed and well-positioned for when the economy comes back to life. In fiscal year 2020, annual revenue grew 29%, surpassing \$17 billion, and operating cash flow grew 27% to \$4.3 billion. No other enterprise software company at our scale has grown at this rate. In addition, our \$20 million-plus relationships grew 34% over last year.

Finally, I'm enormously proud that even as we've delivered strong returns for our shareholders over the years, we continue to give back and deliver great returns for all our stakeholders. Over the past 21 years, we've given \$330 million in grants to worthy causes, our employees globally have volunteered 5 million hours, and 46,000 nonprofit and higher education organizations use our software for free. We've supported efforts to improve public education, eliminate homelessness in our cities, advance the health of our planet, and now fight this virus.

Going forward, we'll continue to do everything we can to help our investors, customers, partners, employees, and communities emerge strong from this crisis. As always, I'm grateful to you for being our partner. And as I look to the future, I know that by truly coming together we will all get to a safe and healthy new normal.

Thank you,
Marc Benioff
Chair and CEO
Salesforce

A handwritten signature in black ink, appearing to read "Marc", written in a cursive style.

DOING WELL & DOING GOOD



By sticking to our values, we managed to make FY20 another great year. A big thank you to everyone who made these accolades possible.

LEADER IN PHILANTHROPY

“CHANGE THE
WORLD” LIST

FORTUNE

LEADER IN CULTURE

#1 TOP 50
COMPANIES
THAT CARE

People

LEADER IN INNOVATION

WORLD'S MOST
INNOVATIVE
COMPANIES

Forbes

MOST
SUSTAINABLE
COMPANIES

BARRON'S

WORLD'S
BEST WORKPLACE

Great
Place
To
Work.

FUTURE 50
TOP 10

FORTUNE



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 2020

OR

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

Commission File Number: 001-32224

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3320693
(IRS Employer
Identification No.)

Salesforce Tower
415 Mission Street, 3rd Fl
San Francisco, California 94105
(Address of principal executive offices)
Telephone Number (415) 901-7000
(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	CRM	New York Stock Exchange

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

Not applicable

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

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

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

Indicate by check mark whether the Registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

Based on the closing price of the Registrant's Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, which was July 31, 2019, the aggregate market value of its shares (based on a closing price of \$154.50 per share) held by non-affiliates was approximately \$92.7 billion. Shares of the Registrant's Common Stock held by each executive officer and director and by each entity or person that owned 5 percent or more of the Registrant's outstanding Common Stock were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 29, 2020, there were approximately 895 million shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended January 31, 2020, are incorporated by reference in Part III of this Report on Form 10-K. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

INDEX

	<u>Page No.</u>
PART I	
Item 1. Business	4
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	32
Item 2. Properties	33
Item 3. Legal Proceedings	33
Item 4. Mine Safety Disclosures	33
Item 4A. Executive Officers of the Registrant	34
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	36
Item 6. Selected Financial Data	37
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation ...	39
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	58
Item 8. Consolidated Financial Statements and Supplementary Data	62
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure ..	118
Item 9A. Controls and Procedures	118
Item 9B. Other Information	119
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	120
Item 11. Executive Compensation	120
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	120
Item 13. Certain Relationships and Related Transactions and Director Independence	120
Item 14. Principal Accountant Fees and Services	120
PART IV	
Item 15. Exhibits and Financial Statement Schedules	121
Item 16. 10-K Summary	122
Index to Exhibits	123
Signatures	127

FORWARD-LOOKING INFORMATION

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

PART I.

ITEM 1. BUSINESS

Overview

Salesforce is a global leader in customer relationship management (“CRM”) technology that brings companies and customers together. Founded in 1999, Salesforce enables companies of every size and industry to connect with their customers in new ways through existing and emerging technologies, including cloud, mobile, social, blockchain, voice and artificial intelligence (“AI”), to transform their businesses.

Salesforce’s Customer 360 is an integrated platform that unites sales, service, marketing, commerce, integration, analytics and more to give companies a single source of truth about their customers. Our service offerings are designed to be intuitive and easy to use. They can generally be deployed quickly, configured easily and integrated with other platforms and enterprise applications. We sell to businesses worldwide primarily on a subscription basis, through our direct sales efforts and also indirectly through partners. Through our platform and other developer tools, we also enable third parties to develop additional functionality and new applications, or apps that run on our platform, which are sold separately from—or in conjunction with—our service offerings. To advance the development of the Customer 360 platform, we have been acquisitive. For example, in fiscal year 2019, we acquired MuleSoft, Inc. (“MuleSoft”), an integration platform company, and in fiscal year 2020, we acquired Tableau Software Inc. (“Tableau”), an analytics company.

Salesforce is committed to a core set of values: trust, customer success, innovation and equality. Foremost among these is trust, which is the foundation for everything we do. Our customers trust our technology to deliver the highest levels of security, privacy, performance and availability at scale. Customer success is at the core of our business, with people, programs and a focus on making every customer successful. We believe our continuous innovation drives customer success and builds trust, which in turn drives mutual growth. Finally, we value the equality of every individual at our company and in our community as we believe that equality, sustainability and diversity make us a better company. Our culture is driven by these four core values which in turn fosters dialogue, collaboration, recognition and a sense of family.

We believe the business of business is to make the world a better place for all of our stakeholders, including stockholders, customers, employees, partners, the planet and the communities in which we work and live. Salesforce is committed to transparent environmental, social and governance disclosures and maintaining programs that support the success of these initiatives.

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

Our Service Offerings

Salesforce Customer 360 includes applications and platform services for every touchpoint in a customer’s journey. It includes the following offerings:

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

Service Cloud. Service Cloud enables companies to deliver smarter, faster and more personalized customer service and support. Our customers use Service Cloud to connect their service agents with customers anytime and anywhere, on popular devices and across multiple channels: phone, email, messaging, chat, live video, SMS, self-service web portals, social networks, online communities and

directly within their own products and mobile apps. In addition, Service Cloud offers a field service solution that enables companies to connect agents, dispatchers and mobile employees through one centralized platform, on which they can schedule and dispatch work intelligently, and track and manage jobs in real-time.

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

Salesforce Platform and Other.

Customer 360 Platform. The Customer 360 Platform empowers Information Technology (“IT”), developers and business users with no-code to pro-code Platform-as-a-Service tools for building, securing, integrating and managing the business apps that power today’s customer experiences. With the Customer 360 Platform, enterprises drive digital transformation at scale by building applications for any business need. The Customer 360 Platform also includes Trailhead, our free online learning platform that allows anyone to learn in-demand Salesforce skills, including administering our services and developing on the Salesforce Customer 360 Platform. With myTrailhead, customers can personalize Trailhead for their business to empower learning and enablement at their company. The Customer 360 Platform also includes our Heroku Engagement Platform, which enables developers to build, run and operate applications entirely in the cloud.

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

Analytics. Tableau and Einstein Analytics offer customers intelligent analytics capabilities so they can better understand their business data. By providing self-service analytical technology to customers, they are intended to improve our customers’ decision-making and allow customers to take action from any device.

Productivity. Quip Collaboration Platform combines documents, spreadsheets, apps and chat with live CRM data to deliver a central hub for teams to create, collaborate and get work done from almost any device.

Our service offerings are suited to meet the needs of our customers in certain industries, such as solutions for financial services, healthcare and life sciences, manufacturing, consumer goods, government and philanthropy, as well as customers of every size with offerings such as Essentials for small business. Additionally, our Community Cloud enables companies to quickly create and manage trusted, branded digital destinations for customers, partners and employees, collectively referred to as community cloud. This allows companies to engage and collaborate directly with groups of people by giving them access to relevant information, apps and experts.

Business Benefits of Using Our Solution

The key advantages of our solutions include the following:

- A multi-tenant application architecture designed to enable our service offerings to scale securely, reliably and cost effectively.

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

Our Business and Growth Strategy

We orient our business strategy and invest for future growth by focusing on the following key priorities:

Expanding relationships with existing customers. We see significant opportunities to deepen existing customer relationships through cross selling and upselling. For example, we see significant opportunity to expand multi-offering adoption with our existing customers, including our largest enterprise customers. As our customers realize the benefits of our service offerings, we aim to upgrade the customer experience with new products, premium editions and additional subscriptions by targeting new functional areas and business units, and expanding all editions of our service offerings with new features, functions and increased security through our own development, acquisitions and partnerships. Ultimately, our goal is to become our customers’ digital trusted advisors, inspiring enterprise-wide digital transformation and accelerating strategic engagements through direct discussions with the highest levels of our customers’ executive management.

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

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

Targeting vertical industries. To better meet the needs of our customers, we provide solutions specifically built for customers in certain industries, such as financial services, healthcare and life sciences, government, manufacturing, consumer goods and philanthropy. These solutions help to expand our potential customer base and help to attract new customers.

Expanding into new categories. As part of our growth strategy we are delivering innovative solutions in new categories, including analytics, e-commerce, Internet of Things (“IoT”) and integration, and expect to continue this type of category expansion in the future.

Expanding and strengthening our partner ecosystem. The Customer 360 Platform enables customers, independent software vendors (“ISVs”) and third-party developers to create, test and deliver cloud-based apps. These apps can be marketed and sold on the AppExchange, our enterprise cloud marketplace, or

sold directly by software vendors. We continue to work with and invest in our partner ecosystem, including these ISVs and system integrators (“SIs”), to accelerate our reach into new markets and industries, offer a variety of solutions natively and through the AppExchange, and address the business requirements of both current and future customers.

Promoting strong customer adoption and reducing customer attrition. We believe that we have the people, processes and proven innovation to help companies transform successfully. We have free, curated resources such as Trailhead to help companies of every size learn our systems, as well as customer success programs including success management resources, advisory services, technical architects and business strategists to enable and accelerate digital transformation. With these resources and our customer success programs, we strive to reduce attrition and secure renewals of existing customer subscriptions prior to the end of their contractual terms.

Mergers and Acquisitions and Strategic Investments

From time to time, we evaluate opportunities to acquire or invest in complementary businesses, services, technologies and intellectual property rights to complement our organic innovation and advance the development of our Customer 360 Platform. These evaluations resulted in our acquisition of several companies in fiscal 2020, notably Salesforce.org, Tableau and ClickSoftware Technologies, Ltd. (“ClickSoftware”), which expanded our solutions built for non-profit and higher education organizations, as well as our analytics and field service management capabilities, respectively.

In addition to mergers and acquisitions, we invest in early- to late-stage technology and professional cloud service companies across the globe to support our business initiatives. We plan to continue making these types of strategic investments as opportunities arise.

Technology, Development and Operations

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

We provide the majority of our services to our customers from infrastructure designed and operated by us but secured within third-party data center facilities. In combination with these third-party data center facilities, we also run our services on cloud computing platform partners who offer Infrastructure-as-a-Service, including servers, storage, databases and networking. Our technology and product efforts are focused on improving and enhancing the features, functionality, performance, availability and security of our existing service offerings, as well as developing new features, functionality and services and integrating businesses, services and technologies from acquisitions. Performance, functional depth, security, usability and sustainability of our solutions influence our technology decisions and product direction.

Competition

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

Our current competitors include:

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

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

Customers

We sell to businesses of all sizes and in almost every industry worldwide. The number of paying subscriptions at each of our customers ranges from one to hundreds of thousands. None of our customers accounted for more than five percent of our revenues in fiscal 2020, 2019 or 2018.

Customer Service and Support

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

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

Sales and Marketing

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

To a lesser extent, we also have a network of partners who refer sales leads to us and who then assist in selling to these prospects. This network includes global consulting firms, systems integrators and other partners. In return, we typically pay these partners a fee based on the first-year subscription revenue generated by the customers whom they refer. We continue to invest in developing additional distribution channels for our subscription service.

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

Our primary marketing activities include:

- Multi-channel marketing campaigns that span email, social, web and more, which align to a broader customer journey;
- Customer events of all sizes to create customer and prospect awareness, including proprietary events such as Dreamforce and World Tours, as well as participation in trade shows and industry events;
- Press and industry analyst relations to garner third-party validation and generate positive coverage for our company, brand, service offerings and value proposition;
- Partner co-marketing activities with global and regional implementation partners;
- Customer testimonials and our community of Trailblazers, individuals who drive innovation, grow their careers and transform their businesses using the Salesforce platform;
- Event sponsorships; and
- Primary real estate signage.

Intellectual Property

We rely on a combination of trademarks, copyrights, trade secrets and patents, as well as contractual provisions, to protect our proprietary technology and our brands. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, services, documentation and other proprietary information. We believe the duration of our patents is adequate relative to the expected lives of our service offerings. We also purchase or license technology that we incorporate into our products or services. At times, we make select intellectual property broadly available at no or low cost to achieve a strategic objective, such as promoting industry standards, advancing interoperability, fostering open source software or attracting and enabling our external development community. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products and business methods, we believe, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms.

Employees

As of January 31, 2020, we had more than 49,000 employees. None of our employees in the United States are represented by a labor union. However, for certain foreign subsidiaries, works councils represent our employees.

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Industry

If our security measures or those of our third-party data center hosting facilities, cloud computing platform providers or third-party service partners, or the underlying infrastructure of the Internet are breached, and unauthorized access is obtained to a customer’s data, our data or our IT systems, or authorized access is blocked or disabled, our services may be perceived as not being secure, customers may curtail or stop using our services, and we may incur significant reputational harm, legal exposure and liabilities, or a negative financial impact.

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

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

These risks are mitigated, to the extent possible, by our ability to maintain and improve business and data governance policies, enhanced processes and internal security controls, including our ability to escalate and

respond to known and potential risks. Our Board of Directors, Audit Committee and executive management are regularly briefed on our cyber-security policies and practices and ongoing efforts to improve security, as well as periodic updates on cyber-security events. Although we have developed systems and processes designed to protect our customers' and our customers' customers' proprietary and other sensitive data, we can provide no assurances that such measures will provide absolute security. For example, our ability to mitigate these risks may be impacted by the following:

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

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

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

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

Because our services are complex and incorporate a variety of hardware, proprietary software and third-party software, our services may have errors or defects that could result in unanticipated downtime for our subscribers and harm to our reputation and our business. Cloud services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in, and experienced disruptions to, our services and new defects or disruptions may occur in the future. Such defects could also create vulnerabilities that could inadvertently permit access to protected customer data. For example, in fiscal 2020, we experienced a significant service disruption due to an internally deployed software update that had an unintended impact on our services for certain customers. As a precaution, we immediately disabled access to our services for potentially impacted customers while we worked to remediate the issue. Upon completion of the evaluation of the cause and impact of the disruption, we determined it did not materially affect our business, reputation or financial results.

In addition, our customers may use our services in unanticipated ways that may cause a disruption in services for other customers attempting to access their data. As we acquire companies, we may encounter

difficulty in incorporating the acquired technologies into our services and in augmenting the technologies to meet the quality standards that are consistent with our brand and reputation. As a result, our services may have errors or defects resulting from the complexities of integrating acquisitions.

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

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

We currently serve our customers from third-party data center hosting facilities and cloud computing platform providers located in the United States and other countries. We also rely on computer hardware purchased or leased from, software licensed from, and cloud computing platforms provided by, third parties in order to offer our services, including database software, hardware and data from a variety of vendors. Any disruption or damage to, or failure of our systems generally, including the systems of our third-party platform providers, could result in interruptions in our services. We have from time to time experienced interruptions in our services and such interruptions may occur in the future. In addition, the ongoing Coronavirus epidemic could potentially disrupt the supply chain of hardware needed to maintain these third-party systems or to run our business. As we increase our reliance on these third-party systems, our exposure to damage from service interruptions may increase. Interruptions in our services may cause us to issue credits or pay penalties, cause customers to make warranty or other claims against us or to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers, all of which would reduce our revenue. Our business would also be harmed if our customers and potential customers believe our services are unreliable.

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

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

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

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

Regulation related to the provision of services over the Internet is evolving, as federal, state and foreign governments continue to adopt new, or modify existing, laws and regulations addressing data privacy, cybersecurity, data protection, data sovereignty and the collection, processing, storage, transfer and use of data, generally. In some cases, data privacy laws and regulations, such as the European Union’s (“EU”) General Data Protection Regulation (“GDPR”) that took effect in May 2018, impose obligations directly on Salesforce as both a data controller and a data processor, as well as on many of our customers. In addition, new domestic data privacy laws, such as the California Consumer Privacy Act (“CCPA”), which took effect in January 2020, similarly impose new obligations on us and many of our customers, potentially as both businesses and service providers. As the CCPA continues to evolve and various states introduce similar proposals, we and our customers could be exposed to additional regulatory burdens. Further, laws and legislative proposals such as the EU’s proposed e-Privacy Regulation are increasingly aimed at the use of personal information for marketing purposes, and the tracking of individuals’ online activities.

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

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

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

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

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

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

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

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

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

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

- potential failure to achieve the expected benefits on a timely basis or at all;
- potential identified or unknown security vulnerabilities in acquired products that expose us to additional security risks or delay our ability to integrate the product into our service offerings or recognize the benefits of our investment;
- difficulties in increasing or maintaining the security standards for acquired technology consistent with our other services, and related costs;

- difficulty of transitioning the acquired technology onto our existing platforms and customer acceptance of multiple platforms on a temporary or permanent basis;
- augmenting the acquired technologies and platforms to the levels that are consistent with our brand and reputation;
- challenges converting the acquired company's revenue recognition policies and forecasting the related revenues, including subscription-based revenues and software license revenue, as well as appropriate allocation of the customer consideration to the individual deliverables;
- diversion of financial and managerial resources from existing operations;
- the potential entry into new markets in which we have little or no experience or where competitors may have stronger market positions;
- currency and regulatory risks associated with foreign countries and potential additional cybersecurity and compliance risks resulting from entry into new markets;
- difficulties in, and the cost of, integrating operations, technologies, services, platforms and personnel;
- the inability to obtain the regulatory approvals necessary to complete transactions or to integrate operations, or potential remedies imposed by regulatory authorities either as a condition to or following the completion of a transaction (such as the review of our Tableau acquisition by the United Kingdom Competition & Markets Authority, which was completed in fiscal 2020), which may include divestitures, ownership or operational restrictions or other structural or behavioral remedies;
- failure to assimilate acquired employees, which may lead to retention risk with respect to both key acquired employees and our existing key employees or disruption to existing teams;
- difficulties in re-training key employees of acquired companies and integrating them into our organizational structure and corporate culture;
- differences between our values and those of our acquired companies;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- inability to maintain relationships with customers and partners of the acquired business;
- challenges with the acquired company's third-party service providers, including those that are required for ongoing access to third-party data;
- changes to customer relationships or customer perception of the acquired business as a result of the acquisition;
- potential for acquired products to impact the profitability of existing products;
- unanticipated expenses related to acquired technology and its integration into our existing technology;
- potential unknown liabilities associated with the acquired businesses;
- potential write-offs of acquired assets or investments, and potential financial and credit risks associated with acquired customers;
- 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;
- the loss of acquired unearned revenue and unbilled unearned revenue;
- challenges relating to the structure of an investment, such as governance, accountability and decision-making conflicts that may arise in the context of a joint venture or other majority ownership investments;
- difficulties in and financial costs of addressing acquired compensation structures inconsistent with our compensation structure;

- additional stock-based compensation, including the impact on stockholder dilution and our results of operations;
- delays in customer purchases due to uncertainty related to any acquisition;
- ineffective or inadequate controls, procedures and policies at the acquired company;
- in the case of foreign acquisitions, challenges caused by integrating operations over distance, and across different languages, cultures and political environments; and
- the tax effects and costs of any such acquisitions including the related integration into our tax structure and assessment of the impact on the realizability of our future tax assets or liabilities.

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

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

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

Further, in some cases, industry-specific laws, regionally-specific, or product-specific laws, regulations, or interpretive positions may impact our ability, as well as the ability of our customers, partners and data providers, to collect, augment, analyze, use, transfer and share personal and other information that is integral to certain services we provide. The interpretation of many of these statutes, regulations, and rulings is evolving in the courts and administrative agencies and an inability to comply may have an adverse impact on our business and results. This impact may be particularly acute in countries that have passed or are considering passing legislation that requires data to remain localized "in country," as this may impose financial costs on companies required to store data in jurisdictions not of their choosing and nonstandard operational processes that add complexity and are difficult and costly to integrate with global processes. Any failure or perceived failure by us to comply with such requirements could have an adverse impact on our business. For example, there are various statutes, regulations, and rulings relevant to the direct email marketing and text-messaging industries, including the Telephone Consumer Protection Act ("TCPA") and related Federal Communication Commission ("FCC") orders, which impose significant restrictions on the ability to utilize telephone calls and text messages to mobile

telephone numbers as a means of communication, when the prior consent of the person being contacted has not been obtained. We have been, and may in the future be, subject to one or more class-action lawsuits, as well as individual lawsuits, containing allegations that one of our businesses or customers violated the TCPA. A determination that we or our customers violated the TCPA or other communications-based statutes could expose us to significant damage awards that could, individually or in the aggregate, materially harm our business.

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

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

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

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

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

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

Our current competitors include:

- vendors of packaged business software, as well as companies offering enterprise apps delivered through on-premises offerings from enterprise software application vendors and cloud computing application service providers, either individually or with others;
- internally developed enterprise applications (by our potential customers' IT departments);
- software companies that provide their product or service free of charge, and only charge a premium for advanced features and functionality;
- suppliers of traditional business intelligence and data preparation products, as well as business analytics software companies;

- integration software vendors and other companies offering integration or API solutions;
- marketing vendors, which may be specialized in advertising, targeting, messaging, or campaign automation;
- e-commerce solutions from established and emerging cloud-only vendors and established on-premises vendors;
- traditional platform development environment companies and cloud computing development platform companies who may develop toolsets and products that allow customers to build new apps that run on the customers' current infrastructure or as hosted services;
- IoT platforms from large companies that have existing relationships with hardware and software companies; and
- AI solutions from new startups and established companies.

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

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

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

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

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

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

The Internet's infrastructure is comprised of many different networks and services that are highly fragmented and distributed by design. This infrastructure is run by a series of independent third-party organizations that work together to provide the infrastructure and supporting services of the Internet under the

governance of the Internet Corporation for Assigned Numbers and Names (“ICANN”) and the Internet Assigned Numbers Authority (“IANA”), now under the stewardship of ICANN.

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

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

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

We have strategic investments in publicly traded and privately held companies, which range from early-stage companies to more mature companies with established revenue streams and business models. Many such companies generate net losses and the market for their products, services or technologies may be slow to develop, and, therefore, are dependent on the availability of later rounds of financing from banks or investors on favorable terms to continue their operations. The financial success of our investment in any privately held company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. Likewise, the financial success of our investment in any publicly held company is typically dependent upon an exit in favorable market conditions, and to a lesser extent on liquidity events. The capital markets for public offerings and acquisitions are dynamic and the likelihood of successful liquidity events for the companies we have invested in could significantly worsen. Further, valuations of privately held companies are inherently complex due to the lack of readily available market data.

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

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

All of our investments, especially our investments in privately held companies, are subject to a risk of a partial or total loss of investment capital. In addition, in the future we may deploy material investments in

individual investee companies, resulting in the increasing concentration of risk in a small number of companies. Changes in the fair value or partial or total loss of investment capital of these individual companies could be material to our financial statements.

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

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

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

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

- the timing of commission, bonus, and other compensation payments to employees;
- the cost, timing and management effort required for the introduction of new features to our services;
- the costs associated with acquiring new businesses and technologies and the follow-on costs of integration and consolidating the results of acquired businesses;
- expenses related to our real estate, our office leases and our data center capacity and expansion;
- timing of additional investments in our enterprise cloud computing application and platform services and in our consulting services;
- expenses related to significant, unusual or discrete events, which are recorded in the period in which the events occur;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- income tax effects resulting from, but not limited to, tax law changes, court decisions on tax matters, global tax developments applicable to multinationals, changes in operations or business structures, and acquisition activity;
- the timing of payroll and other withholding tax expenses, which are triggered by the payment of bonuses and when employees exercise their vested stock awards;
- technical difficulties or interruptions in our services;
- changes in interest rates and our mix of investments, which would impact the return on our investments in cash and marketable securities;
- conditions, particularly sudden changes, in the financial markets, which have impacted and may continue to impact the value and liquidity of our investment portfolio;
- changes in the fair value of our strategic investments in early-to-late stage privately held and public companies, which could negatively and materially impact our financial results, particularly in periods of significant market fluctuations;
- equity issuances, including as consideration in acquisitions;
- the timing of stock awards to employees and the related adverse financial statement impact of having to expense those stock awards on a straight-line basis over their vesting schedules;
- evolving regulations of cloud computing and cross-border data transfer restrictions and similar regulations;
- regulatory compliance costs; and
- the impact of new accounting pronouncements and associated system implementations.

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

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

Due to the pace of change and innovation in enterprise cloud computing services, the unpredictability of future general economic and financial market conditions, the impact of foreign currency exchange rate

fluctuations, the growing complexity of our business, including the use of multiple pricing and packaging models and the increasing amount of revenue from software license sales, and our increasing focus on enterprise cloud computing services, we may not be able to realize our projected revenue growth plans. We plan our expense levels and investment on estimates of future revenue and future anticipated rate of growth. We may not be able to adjust our spending appropriately if the addition of new subscriptions or the renewals of existing subscriptions fall short of our expectations. A portion of our expenses may also be fixed in nature for some minimum amount of time, such as with costs capitalized to obtain revenue contracts, data center and infrastructure service contracts or office leases, so it may not be possible to reduce costs in a timely manner, or at all, without the payment of fees to exit certain obligations early. As a result, we expect that our revenues, operating results and cash flows may fluctuate significantly on a quarterly basis and revenue growth rates may not be sustainable and may decline in the future, and we may not be able to provide continued operating margin expansion, which could harm our business and cause the market price of our common stock to decline.

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

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

- localization of our services, including translation into foreign languages and associated expenses;
- regulatory frameworks or business practices favoring local competitors;
- pressure on the creditworthiness of sovereign nations, where we have customers and a balance of our cash, cash equivalents and marketable securities;
- foreign currency fluctuations and controls, which may make our services more expensive for international customers and could add volatility to our operating results;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations, including employment, tax, privacy, anti-corruption, import/export, antitrust, data transfer, storage and protection, and industry-specific laws and regulations, including rules related to compliance by our third-party resellers and our ability to identify and respond timely to compliance issues when they occur;
- liquidity issues or political actions by sovereign nations, including nations with a controlled currency environment, which could result in decreased values of these balances or potential difficulties protecting our foreign assets or satisfying local obligations;
- vetting and monitoring our third-party resellers in new and evolving markets to confirm they maintain standards consistent with our brand and reputation;
- treatment of revenue from international sources, evolving domestic and international tax environments, 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;
- uncertainty regarding regulation, currency, tax, and operations resulting from the United Kingdom's exit from the EU ("Brexit") on January 31, 2020 and possible disruptions in trade, the sale of our services and commerce, and movement of our people between the United Kingdom, EU, and other locations;
- uncertainty regarding the imposition of and changes in the United States' and other governments' trade regulations, trade wars, tariffs, other restrictions or other geopolitical events;
- changes in the public perception of governments in the regions where we operate or plan to operate;
- regional data privacy laws and other regulatory requirements that apply to outsourced service providers and to the transmission of our customers' data across international borders, which grow more complex as we scale and expand into new markets;

- different pricing environments;
- difficulties in staffing and managing foreign operations;
- different or lesser protection of our intellectual property, including increased risk of theft of our proprietary technology and other intellectual property;
- longer accounts receivable payment cycles and other collection difficulties;
- natural disasters, acts of war, terrorism, or pandemics, including the ongoing Coronavirus epidemic; and
- regional economic and political conditions.

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

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

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

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

Our customers have no obligation to renew their subscriptions for our services after the expiration of their contractual subscription period, which is typically 12 to 36 months, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions, renew for shorter contract lengths, or switch to lower cost offerings of our services. It is difficult to predict attrition rates given our varied customer base of enterprise and small and medium size business customers and the number of multi-year subscription contracts. Historically, our subscription and support revenues primarily consisted of subscription fees; however, with the May 2018 acquisition of MuleSoft and the August 2019 acquisition of Tableau, subscription and support revenues also now include term software license sales. We have less experience forecasting the renewal rates of such term software license sales. Our attrition rates may increase or fluctuate as a result of a number of factors, including customer dissatisfaction with our services, customers' spending levels, mix of customer base, decreases in the number of users at our customers, competition, pricing increases or changes and deteriorating general economic conditions.

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

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

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

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

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

We primarily conduct our business in the following regions: the Americas, Europe and Asia Pacific. The expanding global scope of our business exposes us to risk of fluctuations in foreign currency markets. This exposure is the result of selling in multiple currencies, growth in our international investments, including data center expansion, additional headcount in foreign locations, and operating in countries where the functional currency is the local currency. Specifically, our results of operations and cash flows are subject to fluctuations primarily in British Pound Sterling, Euro, Japanese Yen, Canadian Dollar and Australian Dollar against the U.S. Dollar as well as the Euro against the British Pound Sterling. These exposures may change over time as business practices evolve, economic and political conditions change and evolving tax regulations come into effect. The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Furthermore, fluctuations in foreign currency exchange rates can impact our ability to accurately predict our future results and earnings. Additionally, global political events, including Brexit and similar geopolitical developments, fluctuating commodity prices and trade tariff developments, have caused global economic uncertainty and uncertainty about the interest rate environment, which could amplify the volatility of currency fluctuations. Although we attempt to mitigate some of this volatility and related risks through foreign currency hedging, our hedging activities are limited in scope and may not effectively offset the adverse financial impacts that may result from unfavorable movements in foreign currency exchange rates, which could adversely affect our financial condition or results of operations.

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

Our overall performance depends in part on worldwide economic and geopolitical conditions. The United States and other key international economies have experienced cyclical downturns from time to time in which economic activity was impacted by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies and overall uncertainty with respect to the economy. These economic conditions can arise suddenly and the full impact of such conditions can remain uncertain. In addition, geopolitical developments, such as existing and potential trade wars and other events beyond our control, such as the Coronavirus epidemic, can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. For example, in response to the Coronavirus epidemic, we have shifted certain of our customer events to virtual-only experiences and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. Moreover, these conditions can affect the rate of IT spending and could adversely affect our customers' ability or willingness to attend our events or to purchase our enterprise

cloud computing services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our future sales and operating results.

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

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

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

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

Social and ethical issues, including the use of AI in our offerings, may result in reputational harm and liability.

Social and ethical issues, including the use of new and evolving technologies such as AI in our offerings, may result in reputational harm and liability. We are increasingly building AI into many of our offerings. As with many innovations, AI and our Customer 360 platform present additional risks and challenges that could affect their adoption and therefore our business. For example, the development of AI and Customer 360, the latter of which provides information regarding our customers' customers, presents emerging ethical issues and if we enable or offer solutions that draw controversy due to their perceived or actual impact on human rights, privacy, employment, or in other social contexts, we may experience brand or reputational harm, competitive harm or legal liability. Data practices by us or others that result in controversy could impair the acceptance of artificial intelligence solutions. This in turn could undermine the decisions, predictions, or analysis AI applications produce, subjecting us to competitive harm, legal liability, and brand or reputational harm.

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

perceived changes in our dedication to these commitments could adversely impact our relationships with our customers.

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

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

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

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

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

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

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

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

If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technology, affecting our brand, causing us to incur significant expenses and harming our business. Any of our patents, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have many U.S. patents and pending U.S. and international patent applications, we may be unable to obtain patent protection for the technology covered in our patent applications or the patent protection may not be obtained quickly enough to meet our business needs. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and

scope of protection of intellectual property rights are uncertain, and we also may face proposals to change the scope of protection for some intellectual property rights in the U.S. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Also, our involvement in standard setting activity or the need to obtain licenses from others may require us to license our intellectual property. Accordingly, despite our efforts, we may be unable to prevent third parties from using our intellectual property.

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

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

Our success depends substantially upon the continued services of our executive officers and other key members of management, particularly our chief executive officer. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. For example, in February 2020, Keith Block resigned as co-CEO and as a director of the Company. Such changes in our executive management team may be disruptive to our business. We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our services and technologies. We do not have employment agreements with any of our executive officers, key management, development or operations personnel and they could terminate their employment with us at any time. The loss of one or more of our key employees or groups could seriously harm our business.

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

In addition, we believe in the importance of our corporate culture, which fosters dialogue, collaboration, recognition and a sense of family. As our organization grows and expands globally, and as employees' workplace expectations develop, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our ability to attract and retain employees or our reputation with customers and could negatively impact our future growth.

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

Our customers depend on our support organization to resolve technical issues relating to our applications. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services across our varying and diverse offerings. Increased customer demand for these services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on our applications and business reputation and on positive recommendations from

our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our service offerings to existing and prospective customers, and our business, operating results and financial position.

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

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

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

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Significant judgment is often required in the determination of our worldwide provision for income taxes. Our effective tax rate could be impacted by changes in the earnings and losses in countries with differing statutory tax rates, changes in operations, changes in non-deductible expenses, changes in excess tax benefits of stock-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes, effects from acquisitions, and changes in accounting principles and tax laws. Any changes, ambiguity, or uncertainty in taxing jurisdictions' administrative interpretations, decisions, policies and positions could also materially impact our income tax liabilities.

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

We are also subject to tax examinations in multiple jurisdictions. While we regularly evaluate new information that may change our judgment resulting in recognition, derecognition or changes in measurement of a tax position taken, there can be no assurance that the final determination of any examinations will not have an adverse effect on our operating results of financial positions.

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

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

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

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

As of January 31, 2020, we had a substantial level of debt, including the 2023 and 2028 Senior Notes ("Senior Notes"), the loan we assumed when we purchased an office building located at 50 Fremont Street in San

Francisco, California (“50 Fremont”) due June 2023 and lease arrangements. Additionally, we have significant contractual commitments, such as commitments with infrastructure service providers, which are not reflected on our consolidated balance sheets. In April 2018, we amended and restated our revolving credit facility under which we can draw down up to \$1.0 billion. Maintenance of our indebtedness and contractual commitments and any additional issuances of indebtedness could:

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

Our ability to meet our expenses and debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. We will not be able to control many of these factors, such as economic conditions and governmental regulations. Further, our operations may not generate sufficient cash to enable us to service our debt or contractual obligations resulting from our leases. If we fail to make a payment on our debt, we could be in default on such debt. If we are at any time unable to generate sufficient cash flows from operations to service our indebtedness when payment is due, we may be required to attempt to renegotiate the terms of the instruments relating to the indebtedness, seek to refinance all or a portion of the indebtedness or obtain additional financing. There can be no assurance that we would be able to successfully renegotiate such terms, that any such refinancing would be possible or that any additional financing could be obtained on terms that are favorable or acceptable to us. Any new or refinanced debt may be subject to substantially higher interest rates, which could adversely affect our financial condition and impact our business.

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

Our senior unsecured notes and senior unsecured credit agreements impose restrictions on us and require us to maintain compliance with specified covenants. Our ability to comply with these covenants may be affected by events beyond our control. A failure to comply with the covenants and other provisions of our outstanding debt could result in events of default under such instruments, which could permit acceleration of all of our debt and borrowings. Any required repayment of our debt or revolving credit facility as a result of a fundamental change or other acceleration would lower our current cash on hand such that we would not have those funds available for use in our business.

New lease accounting guidance requires that we now record a liability for operating lease activity on our consolidated balance sheet, which resulted in an increase in both our assets and liabilities. The implementation of this guidance, including the increase in operating and finance lease liabilities on our consolidated balance sheet, may impact our ability to obtain the necessary financing from financial institutions at commercially viable rates or at all. Our lease terms may include options to extend or terminate the lease. These options are reflected in the operating lease right-of-use (“ROU”) asset, which represents our right to use an underlying asset for the lease term, and lease liability only when it is reasonably certain that we will exercise that option. We reassess the lease term if and when a significant event or change in circumstances occurs within our control. The potential impact of these options to extend could be material to our financial position and financial results.

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 (including the

ongoing Coronavirus epidemic) and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our services to our customers, and could decrease demand for our services. Our corporate headquarters, and a significant portion of our research and development activities, IT systems, and other critical business operations, are located near major seismic faults in the San Francisco Bay Area. Because we do not carry earthquake insurance for direct quake-related losses, with the exception of the building that we own in San Francisco, and significant recovery time could be required to resume operations, our financial condition and operating results could be materially adversely affected in the event of a major earthquake or catastrophic event.

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

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

Current and future accounting pronouncements and other financial and non-financial reporting standards may negatively impact our financial results.

We regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and interpretations that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we may be required to change our accounting policies, to alter our operational policies, to implement new or enhance existing systems so that they reflect new or amended financial reporting standards, and to adjust our published financial statements. Such changes may have an adverse effect on our business, financial position, and operating results, or cause an adverse deviation from our revenue and operating profit targets, which may negatively impact our financial results.

In addition, as we work to align with the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures, (“TCFD”), the Sustainability Accounting Standards Board (“SASB”), and our own Environmental, Social, Governance (“ESG”) materiality assessment, we may expand our disclosures in these areas. This transparency is consistent with our commitment to executing on a strategy that reflects the economic, social, and environmental impact we have on the world while advancing and complementing our business strategy. These metrics, whether it be the standards we set for ourselves or a failure to meet these metrics, may influence our reputation and the value of our brand. Our failure to achieve progress on our metrics on a timely basis, or at all, could adversely affect our business, financial performance, and growth.

By electing to set and share publicly these corporate ESG metrics, our business may also face increased scrutiny related to ESG activities. As a result, we could damage our reputation and the value of our brand if we fail to act responsibly in the areas in which we report. Any harm to our reputation resulting from setting these metrics or our failure or perceived failure to meet such metrics could adversely affect our business, financial performance, and growth.

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

Our contracts with federal, state, local, and foreign government entities are subject to various procurement regulations and other requirements relating to their formation, administration and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in

various civil and criminal penalties and administrative sanctions, including termination of contracts, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause. Any of these risks related to contracting with governmental entities could adversely impact our future sales and operating results.

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

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

Risks Related to Our Common Stock

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

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

- variations in our operating results, earnings per share, cash flows from operating activities, unearned revenue, remaining performance obligation, year-over-year growth rates for individual service offerings and other financial metrics and non-financial metrics, such as transaction usage volumes and other usage metrics, and how those results compare to analyst expectations;
- variations in, and limitations of, the various financial and other metrics and modeling used by analysts in their research and reports about our business;
- forward-looking guidance to industry and financial analysts related to, for example, future revenue, unearned revenue, remaining performance obligation, cash flows from operating activities and earnings per share, the accuracy of which may be impacted by various factors, many of which are beyond our control, including general economic and market conditions and unanticipated delays in the integration of acquired companies as a result of regulatory review;
- changes in the estimates of our operating results or changes in recommendations by securities analysts that elect to follow our common stock;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- announcements by us or by our competitors of mergers or other strategic acquisitions, or rumors of such transactions involving us or our competitors;

- announcements of customer additions and customer cancellations or delays in customer purchases;
- the coverage of our common stock by the financial media, including television, radio and press reports and blogs;
- recruitment or departure of key personnel;
- disruptions in our service due to computer hardware, software, network or data center problems;
- the economy as a whole, geopolitical conditions, including global trade concerns, market conditions in our industry and the industries of our customers;
- trading activity by a limited number of stockholders who together beneficially own a significant portion of our outstanding common stock;
- the issuance of shares of common stock by us, whether in connection with an acquisition or a capital raising transaction;
- issuance of debt or other convertible securities; and
- environmental, social, governance and other issues impacting the Company's reputation.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of January 31, 2020, our executive and principal offices for sales, marketing, professional and administrative services and development consist of approximately 2.1 million square feet of leased and owned property in San Francisco. Of this total, we lease and occupy approximately 1.3 million square feet and own and occupy a majority of the approximately 820,000 square feet of total owned space at 50 Fremont Street. Of the total leased and owned space in San Francisco, 2.1 million square feet is concentrated in our urban campus, which includes 50 Fremont Street, 350 Mission Street, and Salesforce Tower located at 415 Mission Street (“Salesforce Tower”), collectively defined as our “Urban Campus”. Each of the three buildings occupy one of the four corners of a major intersection in downtown San Francisco. In addition, we lease approximately 451,000 square feet in San Francisco that is currently sublet. This space is not included in the amounts above.

In November 2018, we entered into a lease agreement for approximately 325,000 rentable square feet of office space in a building to be constructed as part of our urban campus in San Francisco, California. As of January 31, 2020, construction has not commenced on the building and is dependent on the developer obtaining approvals from the City and County of San Francisco. We expect to begin occupying the space in fiscal 2024.

In November 2019, the Company entered into an agreement to purchase two real estate assets in San Francisco, California for approximately 86,000 square feet of office space near our Urban Campus. The transaction is expected to close in the Company’s first quarter of fiscal 2021, subject to customary closing conditions.

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

For more information regarding legal proceedings, see Note 15 “Legal Proceedings” to the consolidated financial statements in Item 8 of Part II.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 4A. INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following sets forth certain information regarding our current executive officers as of February 28, 2020 (in alphabetical order):

<u>Name</u>	<u>Age</u>	<u>Position</u>
Joe Allanson	56	Chief Accounting Officer and Corporate Controller
Marc Benioff	55	Chair of the Board, CEO and co-Founder
Alexandre Dayon	52	President and Chief Strategy Officer
Parker Harris	53	Co-Founder and Chief Technology Officer
Mark Hawkins	60	President and Chief Financial Officer
Brent Hyder	55	President and Chief People Officer
Srinivas Tallapragada	50	President and Chief Engineering Officer
Bret Taylor	39	President and Chief Operating Officer
Amy Weaver	52	President and Chief Legal Officer

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

Marc Benioff is Chair, CEO and co-Founder of Salesforce and a pioneer of cloud computing. Under Mr. Benioff’s leadership, Salesforce is the fastest-growing top-five enterprise software company and the #1 provider of CRM software globally. Mr. Benioff was named Innovator of the Decade by Forbes and recognized as one of the World’s 50 Greatest Leaders by Fortune and one of the 10 Best-Performing CEOs by Harvard Business Review. A member of the World Economic Forum Board of Trustees, Mr. Benioff serves as the inaugural chair of WEF’s Forum Center for the Fourth Industrial Revolution in San Francisco. Mr. Benioff also serves as chair of the Salesforce Foundation. Mr. Benioff received a B.S. in Business Administration from the University of Southern California, where he is on its Board of Trustees.

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

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

Mark Hawkins has served as our President and Chief Financial Officer and Principal Financial Officer since August 2017. Prior to that, he served as our Chief Financial Officer, Principal Financial Officer and Executive

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

Brent Hyder has served as our President and Chief People Officer since September 2019. Prior to joining Salesforce, Mr. Hyder served in several senior management roles at Gap Inc., a global clothing and accessories retailer, from 2004 to 2019, including Executive Vice President and Chief People Officer from February 2018 to September 2019, Executive Vice President, Global Talent and Sustainability from May 2017 to February 2018, Executive Vice President and Chief Operating Officer, Gap from June 2016 to May 2017, and Senior Vice President, Human Resources, Gap from September 2014 to June 2016. Mr. Hyder holds a B.A. in retail management from Brigham Young University.

Srini Tallapragada has served as our President and Chief Engineering Officer since December 2019. Prior to that, he served as President, Technology since June 2018, Executive Vice President, Engineering from March 2014 to June 2018 and Senior Vice President, Engineering from May 2012 to February 2014. From April 2011 to June 2012, Mr. Tallapragada served as a Senior Vice President at Oracle. From February 2009 to April 2011 Mr. Tallapragada served as a Senior Vice President at SAP. Previously, Mr. Tallapragada held various roles at Oracle, Infosys and Asian Paints. Mr. Tallapragada holds a masters degree from the School of Human Resources at XLRI, Jamshedpur and a B.T. in Computer Science from the National Institute of Technology, Warangal.

Bret Taylor has served as our President and Chief Operating Officer since December 2019. Prior to that, he served as our President and Chief Product Officer from November 2017 to December 2019 and President, Quip from August 2016 to November 2017. Mr. Taylor joined Salesforce through the acquisition of Quip, Inc., where he was a co-founder and served as CEO since September 2012. Previously, Mr. Taylor served as Chief Technology Officer of Facebook, Inc. from August 2009 to July 2012 and Chief Executive Officer of FriendFeed, Inc., a social network, from October 2007 to August 2009. From June 2007 to September 2007, Mr. Taylor served as an entrepreneur-in-residence at Benchmark, a venture capital firm. Prior to June 2007, Mr. Taylor served as Group Product Manager at Google Inc. Mr. Taylor currently serves as a director of Twitter, Inc., where he is also a member of the Compensation Committee. He previously served on the Board of Directors of Axon Enterprise, Inc. (formerly known as TASER International, Inc.), a protection technologies company. Mr. Taylor holds a B.S. and an M.S. in Computer Science from Stanford University.

Amy Weaver has served as our President and Chief Legal Officer since January 2020. Prior to that, she served as our President, Legal & Corporate Affairs and General Counsel from February 2017 to January 2020, our Executive Vice President and General Counsel from July 2015 to February 2017 and our Senior Vice President and General Counsel from October 2013 to July 2015. Prior to Salesforce, Ms. Weaver served as Executive Vice President and General Counsel at Univar Inc. from December 2010 to June 2013. Previously, Ms. Weaver was Senior Vice President and Deputy General Counsel at Expedia, Inc. and before that she practiced law at Cravath, Swaine & Moore LLP and Perkins Coie LLP. Ms. Weaver also served as a clerk on the U.S. Court of Appeals, Ninth Circuit and as a legislative assistant to a member of the Hong Kong Legislative Council. Ms. Weaver holds a B.A. in Political Science from Wellesley College and a J.D. from Harvard Law School.

PART II.

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

Market Information for Common Stock

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

Dividend Policy

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

Stockholders

As of January 31, 2020, there were 495 registered stockholders of record of our common stock, including The Depository Trust Company, which holds shares of Salesforce common stock on behalf of an indeterminate number of beneficial owners.

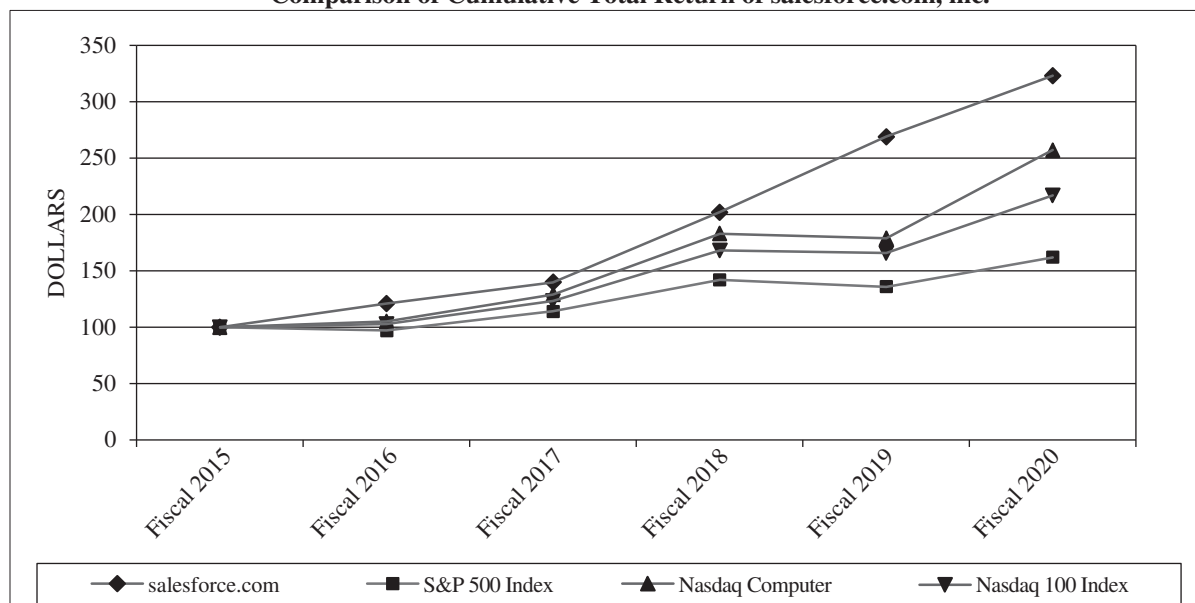
Stock Performance Graph

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

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Standard & Poor’s 500 Index (“S&P 500 Index”), Nasdaq Computer & Data Processing Index (“Nasdaq Computer”) and the Nasdaq 100 Index for each of the last five fiscal years ended January 31, 2020, assuming an initial investment of \$100. Data for the S&P 500 Index, Nasdaq Computer and Nasdaq 100 Index assume reinvestment of dividends.

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

Comparison of Cumulative Total Return of salesforce.com, inc.



	<u>1/31/2015</u>	<u>1/31/2016</u>	<u>1/31/2017</u>	<u>1/31/2018</u>	<u>1/31/2019</u>	<u>1/31/2020</u>
salesforce.com	\$100	\$121	\$140	\$202	\$269	\$323
S&P 500 Index	\$100	\$ 97	\$114	\$142	\$136	\$162
Nasdaq Computer	\$100	\$105	\$129	\$183	\$179	\$257
Nasdaq 100 Index	\$100	\$103	\$123	\$168	\$166	\$217

Recent Sales of Unregistered Securities

In connection with an acquisition, the Company issued 52,302 shares of Company common stock on November 1, 2019. In addition, in connection with the acquisition of MetaMind, Inc. in April 2016, the Company issued 11,126 shares of Company common stock on January 2, 2020. These issuances were made in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”): Section 4(a)(2) of the Securities Act, Regulation D promulgated under the Securities Act, and Regulation S promulgated under the Securities Act.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management’s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for fiscal 2020, 2019 and 2018, and the selected consolidated balance sheet data as of January 31, 2020 and 2019 are derived from, and are qualified by reference to, the audited consolidated financial statements that are included in this Form 10-K. The consolidated statement of operations data for fiscal 2017 and 2016 and the consolidated balance sheet data as of January 31, 2018, 2017 and 2016 are derived from audited consolidated financial statements which are not included in this Form 10-K after certain reclassifications were made to conform to the current period presentation described in Note 1 “Summary of Business and Significant Accounting Policies” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

The consolidated balance sheet data as of January 31, 2020 reflects the prospective adoption of Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), also referred to as Topic 842. The consolidated statement of operations data for fiscal 2019, 2018 and 2017, and the selected consolidated balance sheet data as of January 31, 2019, 2018 and 2017 reflect the retrospective adoption of Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers (“Topic 606”)”. Additionally, the consolidated statement of operations data for fiscal 2019 and the selected consolidated balance sheet data as of January 31, 2019 reflect the prospective adoption of ASU No. 2016-01, “Financial Instruments-Overall (Subtopic 825-10)” (“ASU 2016-01”).

(in millions, except per share data)	<u>Fiscal Year Ended January 31,</u>				
	<u>2020</u>	<u>2019</u>	<u>2018 (as adjusted)</u>	<u>2017 (as adjusted)</u>	<u>2016</u>
Consolidated Statement of Operations					
Total revenues	\$17,098	\$13,282	\$10,540	\$8,437	\$6,667
Income from operations (1)	297	535	454	218	115
Gains (losses) on strategic investments, net	427	542	19	31	(16)
Benefit from (provision for) income taxes (2)	(580)	127	(60)	144	(111)
Net income (loss)	126	1,110	360	323	(47)
Diluted net income (loss) per share	\$ 0.15	\$ 1.43	\$ 0.49	\$ 0.46	\$(0.07)

- (1) Fiscal 2020 income from operations includes a \$166 million one-time non-cash charge related to the accounting for our business combination with Salesforce.org, a related party, in which there was the settlement of the reseller agreement between the two companies.

- (2) Amounts include a benefit related to the partial release of the valuation allowance of \$612 million, \$2 million, \$226 million, and \$1 million for fiscal 2019, 2018, 2017 and 2016, respectively.

(in millions)	As of January 31,				
	2020	2019	2018 (as adjusted)	2017 (as adjusted)	2016
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	\$ 7,947	\$ 4,342	\$ 4,521	\$ 2,209	\$ 2,725
(Negative) working capital (3)	1,118	(572)	(483)	(1,013)	90
Total assets	55,126	30,737	21,984	18,286	12,763
Noncurrent debt and other noncurrent liabilities (4)	6,396	3,877	1,541	2,824	2,119
Retained earnings (accumulated deficit)	1,861	1,735	635	275	(653)
Total stockholders' equity	33,885	15,605	10,376	8,230	5,003

- (3) We consider all of our marketable debt securities to be available to support current liquidity needs including those with maturity dates beyond one year, and therefore we classify these securities within current assets on the consolidated balance sheets. For consistency in presentation, (negative) working capital in the table above as of January 31, 2016 includes amounts previously reported in Marketable securities, noncurrent. In addition, other reclassifications were made to balances as of January 31, 2018, 2017, and 2016 to conform to the current period presentation.
- (4) Amounts include noncurrent operating lease liabilities of \$2.4 billion for fiscal 2020 and \$0 for fiscal 2019, 2018, 2017 and 2016.

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

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

The following section generally discusses Fiscal Year 2020 and 2019 items and year-to-year comparisons between Fiscal Year 2020 and 2019, as well as certain Fiscal Year 2018 items. Discussions of Fiscal Year 2018 items and year-to-year comparisons between fiscal year 2019 and 2018 that are not included in this Form 10-K can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2019.

Overview

We are a global leader in customer relationship management (“CRM”) technology that brings companies and customers together. We introduced our first CRM solution in 2000, and we have since expanded our service offerings with new editions, features and platform capabilities. Our core mission is to enable our customers of every size and industry to connect with their customers in new ways through existing and emerging technologies, including cloud, mobile, social, blockchain, voice and artificial intelligence (“AI”), to transform their businesses. Our Customer 360 platform unites sales, service, marketing, commerce, analytics and more to give our customers a single source of information about their customers.

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

Highlights from the Fiscal Year 2020.

- **Acquisitions:** During fiscal 2020 we completed the acquisition of Tableau Software, Inc. (“Tableau”) for \$14.8 billion in common stock issued, cash and fair value of equity assumed, ClickSoftware Technologies Ltd. (“ClickSoftware”) for \$1.4 billion in cash, common stock issued and fair value of equity assumed, and Salesforce.org for \$300 million in cash.
- **Revenue:** Total fiscal 2020 revenue was \$17.1 billion, an increase of 29 percent year-over-year. Total fiscal 2020 revenues included approximately \$228 million and \$689 million of revenues from Salesforce.org and Tableau, respectively.
- **Earnings per Share:** Fiscal 2020 diluted earnings per share was \$0.15, as compared to diluted earnings per share of \$1.43 from a year ago.
- **Cash:** Total cash, cash equivalents and marketable securities ended the fiscal year at \$7.9 billion. Cash provided by operations for fiscal 2020 was \$4.3 billion, an increase of 27 percent year-over-year.
- **Remaining Performance Obligation:** Remaining performance obligation ended the fiscal year at approximately \$30.8 billion, an increase of 20 percent year-over-year. Our remaining performance obligation includes approximately \$450 million and \$650 million related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively. Current remaining performance obligation ended the fiscal year at approximately \$15.0 billion, an increase of 26 percent year-over-year.

We continue to invest for future growth through focusing on multi-cloud adoption by our existing customers, growing our relationships with our enterprise customers, expanding internationally and expanding and strengthening our ecosystem of partners and independent software vendors (“ISVs”). As a result, we continue to win customers from competitors in the markets in which we compete. In addition, we continue to expand in the growing addressable markets across all of our service offerings providing additional opportunities for growth in our business and results.

We regularly evaluate acquisitions or investment opportunities in complementary businesses, joint ventures, services and technologies and intellectual property rights in an effort to expand our service offerings through a disciplined and thoughtful acquisition process. We expect to continue to make such investments and acquisitions in the future and we plan to reinvest a significant portion of our incremental revenue in future periods to grow our business and continue our leadership role in the cloud computing industry. As part of our business and growth strategy, we are delivering innovative solutions in new categories, including analytics and integration. We drive innovation organically and to a lesser extent through acquisitions, such as our recent business combination with Salesforce.org in June 2019 and acquisitions of Tableau in August 2019 and ClickSoftware in October 2019.

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

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

In December 2019, a novel strain of Coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The extent of the impact of the Coronavirus on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers and our sales cycles, impact on our customer, employee or industry events, and effect on our vendors, all of which are uncertain and cannot be predicted. For example, in response to the Coronavirus epidemic, we have shifted certain of our customer events to virtual-only experiences and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. At this point, the extent to which the Coronavirus may impact our financial condition or results of operations is uncertain. Due to our subscription based business model, the effect of the Coronavirus may not be fully reflected in our results of operations until future periods, if at all.

The expanding global scope of our business and the heightened volatility of global markets expose us to the risk of fluctuations in foreign currency markets. Fluctuations in foreign currency exchange rates negatively impacted our revenue results for fiscal 2020 and had a minimal impact on our remaining performance obligation as of January 31, 2020. We expect these fluctuations to continue in the future.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2020, for example, refer to the fiscal year ending January 31, 2020.

Operating Segments

We operate as one segment. See Note 1 “Summary of Business and Significant Accounting Policies” to the consolidated financial statements for our discussion about segments.

Adoption of New Accounting Standards

We adopted Accounting Standards Update No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”), also referred to as Topic 842 at the beginning of fiscal 2020, and as a result, the consolidated balance sheet as of January 31, 2020 is not comparable with that of January 31, 2019. In addition, in fiscal 2019 we prospectively adopted Accounting Standards Update No. 2016-01, “Financial Instrument-Overall (Subtopic 825-10)” (“ASU 2016-01”). See Note 1, “Summary of Business and Significant Accounting Policies” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Sources of Revenues

We derive our revenues from two sources: subscription and support revenues and related professional services. Subscription and support revenues accounted for approximately 94 percent of our total revenues for fiscal 2020.

Subscription and support revenues are primarily comprised of subscription fees from customers accessing our enterprise cloud computing services (collectively, “Cloud Services”). With the May 2018 acquisition of MuleSoft and the August 2019 acquisition of Tableau, subscription and support revenues also include revenues associated with software licenses. Software license revenues include fees from the sales of term and perpetual licenses. Revenues from software licenses are generally recognized upfront when the software is made available to the customer and revenues from the related support is generally recognized ratably over the contract term. Revenues from software licenses represent less than ten percent of total subscription and support revenue for fiscal 2020, 2019 and 2018.

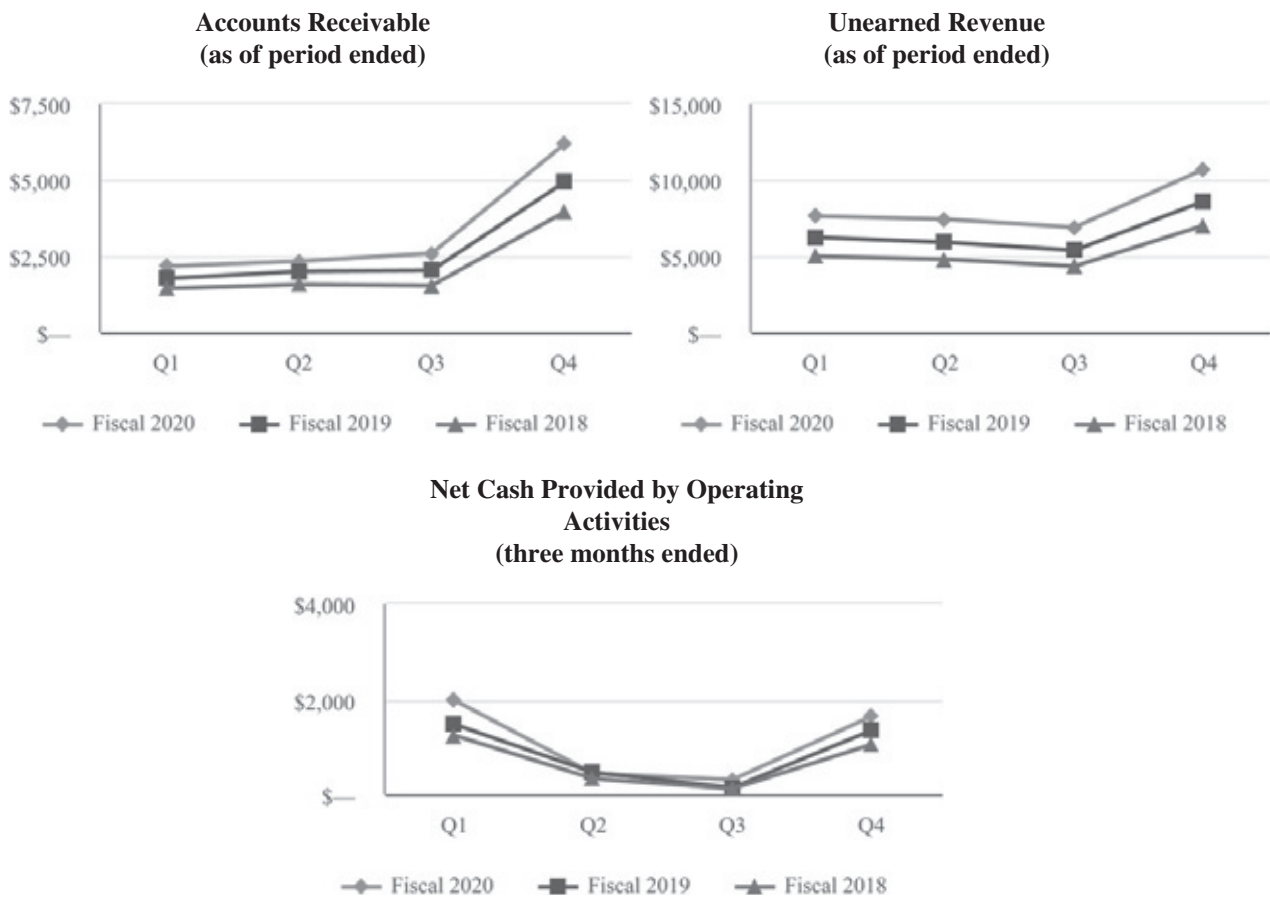
The revenue growth rates of each of our core service offerings, as described below in “Results of Operations”, fluctuate from quarter to quarter and over time. Additionally, we manage the total balanced product portfolio to deliver solutions to our customers, and as a result, the revenue result for each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

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

Unearned revenue primarily consists of billings to customers for our subscription service. Over 90 percent of the value of our billings to customers is for our subscription and support service. We generally invoice our customers in advance, in annual installments, and typical payment terms provide that our customers pay us within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or in revenue depending on whether transfer of control to customers has occurred. In general, we collect our billings in advance of the subscription service period. We typically issue renewal invoices in advance of the renewal service period, and depending on timing, the initial invoice for the subscription and services contract and

the subsequent renewal invoice may occur in different quarters. There is a disproportionate weighting toward annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Our fourth quarter has historically been our strongest quarter for new business and renewals. The year on year compounding effect of this seasonality in both billing patterns and overall new and renewal business causes the value of invoices that we generate in the fourth quarter for both new business and renewals to increase as a proportion of our total annual billings. Accordingly, because of this billing activity, our first quarter is typically our largest collections and operating cash flow quarter. Conversely, our third quarter has historically been our smallest operating cash flow quarter.

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



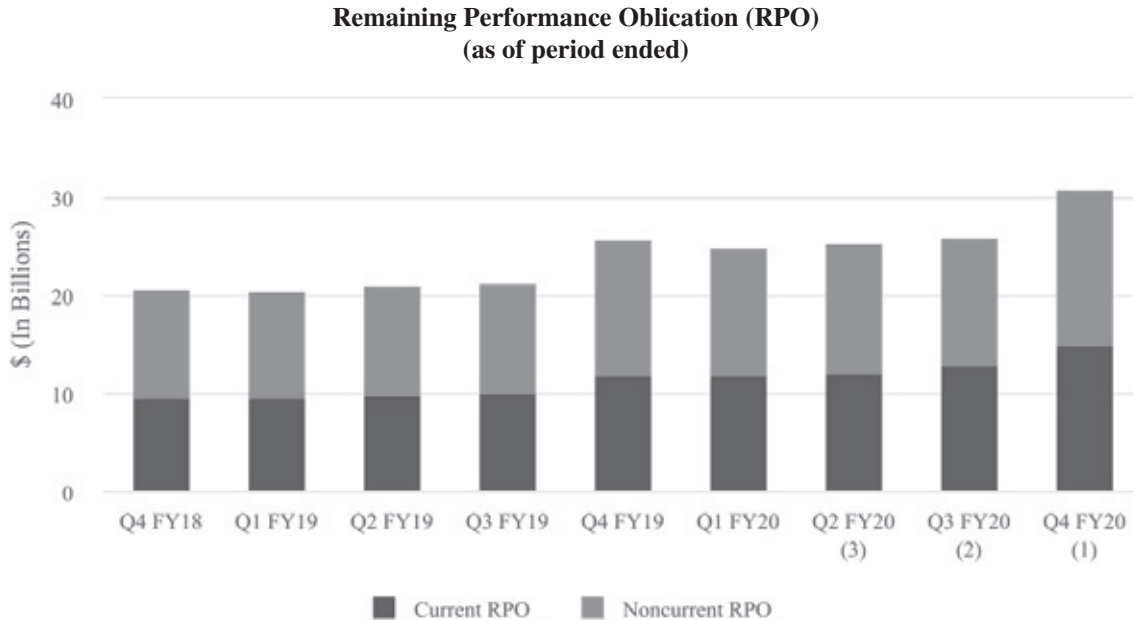
Remaining Performance Obligation

Our remaining performance obligation represents all future revenue under contract that has not yet been recognized as revenue and includes unearned revenue and unbilled amounts. Our current remaining performance obligation represents future revenue under contract that is expected to be recognized as revenue in the next 12 months.

Remaining performance obligation is not necessarily indicative of future revenue growth and is influenced by several factors, including seasonality, the timing of renewals, average contract terms, foreign currency exchange rates and fluctuations in new business growth. Unbilled portions of the remaining performance

obligation denominated in foreign currencies are revalued each period based on the period end exchange rates. For multi-year subscription agreements billed annually, the associated unbilled balance and corresponding remaining performance obligation is typically high at the beginning of the contract period, zero just prior to renewal, and increases if the agreement is renewed. Low remaining performance obligation attributable to a particular subscription agreement is often associated with an impending renewal and may not be an indicator of the likelihood of renewal or future revenue from such customer.

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



- (1) Includes approximately \$450 million and \$650 million of remaining performance obligation related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively.
- (2) Includes approximately \$400 million and \$550 million of remaining performance obligation related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively.
- (3) Includes approximately \$350 million of remaining performance obligation related to the Salesforce.org business combination in June 2019.

Cost of Revenues and Operating Expenses

Impact of Acquisitions

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

Cost of Revenues

Cost of subscription and support revenues primarily consists of expenses related to delivering our service and providing support, including the costs of data center capacity, certain fees paid to various third parties for the use of their technology, services and data and employee-related costs such as salaries and benefits.

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 certain third-party fees.

Research and Development

Research and development expenses consist primarily of salaries and related expenses, including stock-based expenses and allocated overhead.

Marketing and Sales

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

General and Administrative

General and administrative expenses consist primarily of salaries and related expenses, including stock-based expenses, for finance and accounting, legal, internal audit, human resources and management information systems personnel and professional services fees.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition - Contracts with Multiple Performance Obligations. We enter into contracts with our customers that may include promises to transfer multiple Cloud Services, software licenses, premium support and professional services. A performance obligation is a promise in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

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

We allocate the transaction price to each performance obligation on a relative standalone selling price (“SSP”) basis. The SSP is the price at which we would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation. We determine SSP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, the customer demographic, the geographic area where services are sold, price lists, our go-to-market strategy, historical sales and contract prices. In instances where we do not sell or price a product or service separately, we determine relative fair value using information that may include market conditions or other observable inputs. As our go-to-market strategies evolve, we may modify our pricing practices in the future, which could result in changes to SSP.

In certain cases, we are able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. We use a single amount to estimate SSP when it has observable prices. If SSP is not directly observable, for example when pricing is highly variable, we use a range of SSP. We determine the SSP range using information that may include pricing practices or other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customer size and geography.

Costs Capitalized to Obtain Revenue Contracts. Costs capitalized related to new revenue contracts are amortized on a straight-line basis over four years, which, although longer than the typical initial contract period, reflects the average period of benefit, including expected contract renewals. Significant judgment is required in arriving at this average period of benefit. Therefore, we evaluate both qualitative and quantitative factors which include the estimated life cycles of our offerings and our customer attrition.

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

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

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

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

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

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

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

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

We assess our privately held debt and equity securities strategic investment portfolio quarterly for impairment. Our impairment analysis encompasses an assessment of both qualitative and quantitative analyses of key factors including the investee's financial metrics, market acceptance of the product or technology, and the rate at which the investee is using its cash. If the investment is considered to be impaired, we record the investment at fair value by recognizing an impairment through the consolidated statement of operations and establishing a new carrying value for the investment.

Results of Operations

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

	Fiscal Year Ended January 31,					
	2020	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Revenues:						
Subscription and support	\$16,043	94%	\$12,413	93%	\$ 9,766	93%
Professional services and other	1,055	6	869	7	774	7
Total revenues	17,098	100	13,282	100	10,540	100
Cost of revenues (1)(2):						
Subscription and support	3,198	19	2,604	20	2,033	19
Professional services and other	1,037	6	847	6	740	7
Total cost of revenues	4,235	25	3,451	26	2,773	26
Gross profit	12,863	75	9,831	74	7,767	74
Operating expenses (1)(2):						
Research and development	2,766	16	1,886	14	1,553	15
Marketing and sales	7,930	46	6,064	46	4,671	44
General and administrative	1,704	10	1,346	10	1,089	10
Loss on settlement of Salesforce.org reseller agreement	166	1	0	0	0	0
Total operating expenses	12,566	73	9,296	70	7,313	69
Income from operations	297	2	535	4	454	5
Gains on strategic investments, net	427	2	542	4	19	0
Other expense	(18)	0	(94)	(1)	(53)	(1)
Income before benefit from (provision for) income taxes	706	4	983	7	420	4
Benefit from (provision for) income taxes (3)	(580)	(3)	127	1	(60)	(1)
Net income	\$ 126	1%	\$ 1,110	8%	\$ 360	3%

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

	Fiscal Year Ended January 31,					
	2020	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Cost of revenues	\$440	3%	\$215	2%	\$166	2%
Marketing and sales	352	2%	232	2	121	1

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

	Fiscal Year Ended January 31,					
	2020	% of Total Revenues	2019	% of Total Revenues	2018	% of Total Revenues
Cost of revenues	\$204	1%	\$161	1%	\$130	1%
Research and development	510	3	307	2	260	2
Marketing and sales	852	5	643	5	469	5
General and administrative	219	1	172	1	138	1

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

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

	<u>As of January 31,</u>	
	<u>2020</u>	<u>2019</u>
Cash, cash equivalents and marketable securities	\$ 7,947	\$4,342
Unearned revenue	10,662	8,564
Remaining performance obligation	30.8	25.7
Principal due on our outstanding debt obligations (1)	2,694	3,198

- (1) Amounts do not include operating or financing lease obligations.

Remaining performance obligation represents contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods.

Impact of Acquisitions

The comparability of our operating results for the fiscal year ended January, 31 2020 compared to the fiscal year ended January 31, 2019 was impacted by our recent business combination and acquisitions, including the acquisition of Tableau in August 2019, which has been our largest acquisition to date. In our discussion of changes in our results of operations for fiscal 2020 compared to fiscal 2019, we may quantitatively disclose the impact of our acquired products and services for the one-year period subsequent to the acquisition date on the growth in certain of our revenues where such discussions would be meaningful. Expense contributions from our recent acquisitions for each of the respective period comparisons generally were not separately identifiable due to the integration of these businesses into our existing operations or were insignificant to our results of operations during the periods presented.

Fiscal Year Ended January 31, 2020 and 2019

Revenues.

(in millions)	<u>Fiscal Year Ended</u> <u>January 31,</u>		<u>Variance</u>	
	<u>2020</u>	<u>2019</u>	<u>Dollars</u>	<u>Percent</u>
Subscription and support	\$16,043	\$12,413	\$3,630	29%
Professional services and other	1,055	869	186	21
Total revenues	<u>\$17,098</u>	<u>\$13,282</u>	<u>\$3,816</u>	29

The increase in subscription and support revenues was primarily caused by volume-driven increases from new business, which includes new customers, upgrades, additional subscriptions from existing customers and acquisition activity. Pricing was not a significant driver of the increase in revenues for the period. Revenues from term and perpetual software licenses, which are recognized at a point in time, represent approximately five percent of total subscription and support revenues for fiscal 2020. Subscription and support revenues accounted for approximately 94 percent and 93 percent of our total revenues for fiscal 2020 and fiscal 2019, respectively.

The business combination with Salesforce.org in June 2019 and acquisition of Tableau in August 2019 contributed approximately \$217 million and \$652 million to total subscription and support revenues in fiscal 2020, respectively. In addition, total revenues for fiscal 2020 benefited from a full twelve months of revenue from the acquisition of MuleSoft in May 2018. As a result of our business combination activity, we recorded

unearned revenue related to acquired contracts from acquired entities at fair value on the date of acquisition. As a result, we did not recognize certain revenues related to these acquired contracts that the acquired entities would have otherwise recorded as an independent entity.

Our growth in revenues is also impacted by attrition. Attrition represents the reduction or loss of the annualized value of our contracts with customers. We calculate our attrition rate at a point in time on a trailing twelve month basis as of the end of each month. As of January 31, 2020, our attrition rate, excluding Commerce Cloud, Integration Cloud, Salesforce.org and Tableau, was less than nine percent. Our attrition rate for fiscal 2020 benefited, in part, from the ongoing shift in our business mix to enterprise and international markets which have longer customer contract term durations. In general, we exclude service offerings from acquisitions from our attrition calculation until fully integrated into our customer success organization. While it is difficult to predict, we expect our attrition rate to remain consistent as we continue to expand our enterprise business and invest in customer success and related programs.

We continue to invest in a variety of customer programs and initiatives which, along with increasing enterprise adoption, have helped keep our attrition rate consistent as compared to the prior year. Consistent attrition rates play a role in our ability to maintain growth in our subscription and support revenues. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of customers.

Subscription and Support Revenue by Service Offering

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

	Fiscal Year Ended January 31,		Variance Percent
	2020	2019	
Sales Cloud	\$ 4,598	\$ 4,040	14%
Service Cloud	4,466	3,621	23%
Salesforce Platform and Other	4,473	2,854	57%
Marketing and Commerce Cloud	2,506	1,898	32%
Total	\$16,043	\$12,413	

Subscription and support revenues from Quip Collaboration Platform were not significant in fiscal 2020 and 2019. Our Industry Offerings revenue is included in either Sales Cloud, Service Cloud or Salesforce Platform and Other depending on the primary service offering purchased. Integration and Analytics revenues are included in Salesforce Platform and Other. The acquisition of Tableau in August 2019 contributed approximately \$652 million to Salesforce Platform and Other.

Revenues by geography were as follows:

(in millions)	Fiscal Year Ended January 31,				
	2020	As a % of Total Revenues	2019	As a % of Total Revenues	Growth Rate
Americas	\$12,051	71%	\$ 9,445	71%	28%
Europe	3,430	20	2,553	19	34
Asia Pacific	1,617	9	1,284	10	26
Total	\$17,098	100%	\$13,282	100%	

Revenues by geography are determined based on the region of the Salesforce contracting entity, which may be different than the region of the customer. The increase in revenues outside of the Americas was the result of the increasing acceptance of our services, our focus on marketing our services internationally and investment in additional international resources. Revenues in the Americas and Europe also benefited from our acquisition of Tableau in August 2019. Foreign currency fluctuations, primarily the strengthening British Pound Sterling, had a negative impact on revenues outside of the Americas of approximately \$91 million in fiscal 2020 compared to a positive impact of approximately \$39 million in fiscal 2019.

Cost of Revenues.

(in millions)	Fiscal Year Ended January 31,		Variance Dollars
	2020	2019	
Subscription and support	\$3,198	\$2,604	\$594
Professional services and other	1,037	847	190
Total cost of revenues	<u>\$4,235</u>	<u>\$3,451</u>	<u>\$784</u>
Percent of total revenues	25%	26%	

For fiscal 2020, the increase in cost of revenues was primarily due to an increase of \$245 million in employee-related costs, an increase of \$43 million in stock-based expenses, an increase of \$213 million in service delivery costs, primarily due to our efforts to increase data center capacity and an increase of amortization of purchased intangible assets of \$225 million. Service delivery costs associated with perpetual and term software licenses is lower than our service delivery costs for our cloud service offerings and as a result, our subscription and support gross margin in fiscal 2020 benefited, in part, due to this shift in our business mix.

We have increased our headcount by 30 percent since fiscal 2019 to meet the higher demand for services from our customers, and our recent acquisitions also contributed to this increase. We intend to continue to invest additional resources in our enterprise cloud computing services and data center capacity to allow us to scale with our customers and continuously evolve our security measures. We also plan to add employees in our professional services group to facilitate the adoption of our services. The timing of these expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in future periods.

Our professional services and other gross margin was positive \$18 million during fiscal 2020 and positive \$22 million during fiscal 2019. We expect the cost of professional services to be approximately in line with revenues from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Operating Expenses.

(in millions)	Fiscal Year Ended January 31,		Variance Dollars
	2020	2019	
Research and development	\$ 2,766	\$1,886	\$ 880
Marketing and sales	7,930	6,064	1,866
General and administrative	1,704	1,346	358
Loss on settlement of salesforce.org reseller agreement ..	166	0	166
Total operating expenses	<u>\$12,566</u>	<u>\$9,296</u>	<u>\$3,270</u>
Percent of total revenues	73%	70%	

For fiscal 2020, the increase in research and development expenses was primarily due to an increase of approximately \$561 million in employee-related costs, an increase of \$203 million in stock-based expenses, an

increase in our development and test data center costs and allocated overhead. Our research and development headcount increased by 54 percent since fiscal 2019 in order to improve and extend our service offerings, develop new technologies, and integrate acquired companies. Our recent acquisitions also contributed to this increase in headcount. We expect that research and development expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to invest in additional employees and technology to support the development of new, and improve existing, technologies and the integration of acquired technologies.

For fiscal 2020, the increase in marketing and sales expenses was primarily due to an increase of \$1.1 billion in employee-related costs and amortization of deferred commissions, an increase of \$209 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$120 million, and allocated overhead. Our marketing and sales headcount increased by 36 percent since fiscal 2019, primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. Our recent acquisitions also contributed to this increase in headcount. We expect that marketing and sales expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to hire additional sales personnel.

For fiscal 2020, the increase in general and administrative expenses was primarily due to an increase in employee-related costs. Our general and administrative headcount increased by 38 percent since fiscal 2019 as we added personnel to support our growth, and our recent acquisitions also contributed to this increase. We also incurred transaction costs associated with our various acquisitions during fiscal 2020, including approximately \$40 million from Tableau. During fiscal 2019, we incurred approximately \$24 million of transaction costs from our acquisition of MuleSoft in May 2019.

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

Other income and expense.

(in millions)	Fiscal Year Ended		Variance Dollars
	2020	January 31, 2019	
Gains on strategic investments, net	\$427	\$542	\$(115)
Other expense	(18)	(94)	76

Gains on strategic investments, net consists primarily of mark-to-market adjustments related to our publicly held equity securities, observable price adjustments related to our privately held equity securities and other adjustments. Net gains recognized during fiscal 2020 were primarily driven by unrealized gains recognized on privately held equity securities of \$208 million and unrealized gains recognized on publicly traded securities of \$138 million. In addition, net gains recognized during fiscal 2020 included gains of approximately \$9 million and \$39 million as a result of remeasuring our prior equity interest in MapAnything and ClickSoftware, respectively. Net gains recognized during fiscal 2019 were primarily driven by unrealized gains recognized on publicly traded securities of \$345 million.

Other expense primarily consists of interest expense on our debt as well as our operating and finance leases offset by investment income. Interest expense was \$131 million and \$154 million for fiscal 2020 and 2019, respectively. Investment income increased \$61 million in fiscal 2020 compared to the same periods a year ago due to higher interest income across our portfolio, which is primarily a result of the larger cash equivalents and marketable securities balances.

Benefit from (provision for) income taxes.

(in millions)	Fiscal Year Ended January 31,		Variance Dollars
	2020	2019	
Benefit from (provision for) income taxes	\$(580)	\$127	\$(707)
Effective tax rate	82%	(13)%	

In fiscal 2020, we recognized a tax provision of \$580 million on a pretax income of \$706 million. Our tax provision was primarily driven by incremental tax costs associated with the integration of acquired operations and assets and profitable jurisdictions outside of the United States.

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

Fiscal Year Ended January 31, 2019 and 2018

For a discussion of the year ended January 31, 2019 compared to the year ended January 31, 2018, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended January 31, 2019.

Liquidity and Capital Resources

At January 31, 2020, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$7.9 billion and accounts receivable of \$6.2 billion. Our cash, cash equivalents and marketable securities are comprised primarily of corporate notes and obligations, U.S. treasury securities, U.S. agency obligations, asset backed securities, foreign government obligations, mortgage backed obligations, covered bonds, time deposits, money market mutual funds and municipal securities.

As of January 31, 2020, our remaining performance obligation was \$30.8 billion. Our remaining performance obligation represents contracted revenue that has not yet been recognized and includes unearned revenue, which has been invoiced and is recorded on the balance sheet, and unbilled amounts that are not recorded on the balance sheet, that will be recognized as revenue in future periods.

We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities and, if necessary, our borrowing capacity under our revolving loan credit agreement that provides for \$1.0 billion unsecured financing (“Credit Facility”) and unbilled amounts related to contracted non-cancelable subscription agreements, which is not reflected on the balance sheet, will be sufficient to meet our working capital, capital expenditure and debt repayment needs over the next 12 months.

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

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

Cash Flows

For fiscal 2020, 2019 and 2018, our cash flows were as follows (in millions):

	Fiscal Year Ended January 31,		
	2020	2019	2018
Net cash provided by operating activities	\$4,331	\$3,398	\$2,738
Net cash used in investing activities	(2,980)	(5,308)	(2,011)
Net cash provided by financing activities	164	2,010	221

Operating Activities

The net cash provided by operating activities during fiscal 2020 was primarily related to net income of \$126 million, adjusted for non-cash items such as \$2.1 billion of depreciation and amortization, \$1.8 billion of expenses related to employee stock plans, \$0.9 billion of amortization of costs capitalized to obtain revenue contracts and discrete one-time non-cash adjustments. Cash provided by operating activities in fiscal 2020 benefited from strong growth in the business and early payments from some of our larger customer contracts, offset by transaction and integration costs in connection with the acquisition of Tableau.

The net cash provided by operating activities during fiscal 2019 was primarily related to net income of \$1.1 billion, adjusted for non-cash items such as \$1.3 billion of expenses related to employee stock plans and \$1.0 billion related to depreciation and amortization.

Investing Activities

The net cash used in investing activities during fiscal 2020 was primarily related to the purchases of marketable securities of \$3.9 billion and was offset by sales and maturities of marketable securities of \$2.2 billion. In addition, we paid approximately \$1.1 billion of cash consideration for business combinations during fiscal 2020, which was offset by approximately \$644 million of cash and cash equivalents acquired in connection with the acquisition of Tableau, as well as approximately \$110 million of cash and cash equivalents acquired in connection with other acquisitions.

The net cash used in investing activities during fiscal 2019 was primarily related to the acquisition of MuleSoft, Datorama and CloudCraze for \$5.1 billion and was offset by sales and maturities of marketable securities of \$1.6 billion.

Financing Activities

Net cash provided by financing activities during fiscal 2020 consisted primarily of \$840 million from proceeds from equity plans offset by repayments of debt of \$503 million, including repayment of the 2021 Term Loan, and principal payments on financing obligations of \$173 million.

Net cash provided by financing activities during fiscal 2019 consisted primarily of \$3.0 billion from proceeds from issuance of debt to fund the acquisition of MuleSoft and \$704 million from proceeds from equity plans offset by \$1.5 billion in repayments of debt.

Debt

As of January 31, 2020, we had senior unsecured debt outstanding due in 2023 and 2028 with a total carrying value of \$2.5 billion. In addition, we had senior secured notes outstanding related to our loan on 50 Fremont due in 2023 with a total carrying value of \$193 million. We were in compliance with all debt covenants as of January 31, 2020.

We maintain a Credit Facility that matures in April 2023. We may use the proceeds of future borrowings under the Credit Facility for refinancing other indebtedness, working capital, capital expenditures and other general corporate purposes, including permitted acquisitions. There were no outstanding borrowings under the Credit Facility as of January 31, 2020.

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

Contractual Obligations

Our principal commitments consist of obligations under leases for office space, co-location data center facilities and our development and test data center, as well as leases for computer equipment, software, furniture and fixtures, excluding all secured and unsecured debt. At January 31, 2020, the future non-cancelable minimum payments under these commitments were as follows (in millions):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations:					
Facilities space	\$ 3,226	\$ 493	\$ 913	\$ 700	\$1,120
Computer equipment and furniture and fixtures	587	356	231	0	0
Financing obligations	571	67	46	48	410
Lease obligation—buildings to be constructed	2,142	1	79	266	1,796
2023 Senior Notes	1,000	0	0	1,000	0
2028 Senior Notes	1,500	0	0	0	1,500
Loan assumed on 50 Fremont	194	4	8	182	0
Contractual commitments	<u>2,522</u>	<u>398</u>	<u>1,069</u>	<u>839</u>	<u>216</u>
	<u>\$11,742</u>	<u>\$1,319</u>	<u>\$2,346</u>	<u>\$3,035</u>	<u>\$5,042</u>

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

During fiscal 2020 and in future fiscal years, we have made and expect to continue to make additional investments in our infrastructure to scale our operations, increase productivity and enhance our security measures. We plan to upgrade or replace various internal systems to scale with our overall growth. Additionally, we expect capital expenditures to be higher in absolute dollars and remain consistent as a percentage of total revenues in future periods as a result of such investments and continued office build-outs, other leasehold improvements and data center investments.

Other Future Obligations

In February 2020, the Company acquired all outstanding stock of a cloud-based real-time personalization and customer data platform, for approximately \$100 million of cash consideration.

In February 2020, the Company made a strategic investment of \$150 million in cash for preferred shares of a technology company in a private placement.

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

In February 2020, the Company entered into an agreement to acquire Vlocity, Inc., a leading provider of industry-specific cloud and mobile software for approximately \$1.33 billion of cash consideration. The transaction is expected to close in the second quarter of fiscal 2021, subject to customary closing conditions.

In October 2019, we acquired ClickSoftware for approximately \$1.4 billion. In the event that we fully integrate the operations and assets of ClickSoftware, as well as other acquired Israeli based entities into our operations, we may be subject to a potential one-time income tax charge based on an assumed Israeli statutory tax rate of 23 percent applied to the value of any transferred intangibles. Our tax provision for fiscal 2020 reflects the estimated incremental tax costs associated with the integration of ClickSoftware's operations and assets. The timing and amount of the cash payment, if any, is uncertain and would be based upon a number of factors, including our integration plans, valuations related to intercompany transactions, the tax rate in effect at the time, potential negotiations with the taxing authorities and potential litigation.

Environmental, Social, Governance

We believe the business of business is to make the world a better place for all of our stakeholders, including our stockholders, customers, employees, partners, the planet and the communities in which we work and live. Delivering innovative solutions to our customers is core to our mission and, as a technology company, we have developed solutions on the Salesforce Platform that enable our customers and stakeholders to manage and affect environmental, social and governance ("ESG") matters that are meaningful to them. We also believe that transparently disclosing the goals and relevant metrics related to our ESG programs will allow our stakeholders to be informed on our progress. To this end, we are working to align with the recommendations of the Financial Stability Board's ("FSB") Task Force on Climate-Related Financial Disclosures ("TCFD") and of the Sustainability Accounting Standards Board ("SASB") by the end of fiscal 2021.

In fiscal 2020, we completed an ESG materiality assessment, which identified key topics that are most important to our stakeholders and our success as a business. We expect to update this assessment on a periodic basis to ensure it reflects changes in our business and the external environment. The topics covered in this section include some of the key highlights from that assessment. We also publish an annual stakeholder impact report on our website detailing our overall strategy relating to ESG programs as well as our efforts in these areas.

Environmental

Protecting our Planet: We are committed to creating a sustainable, low-carbon future. Salesforce delivers all customers a carbon neutral cloud and we are committed to achieving 100 percent renewable energy for our global operations by the end of fiscal 2022. In fiscal 2020, we procured electricity from renewable energy resources equivalent to 63 percent of what we used globally. We have set an internal price on carbon by offsetting all of our Scope 1 and 2 emissions, as well as the parts of our Scope 3 (indirect emissions) related to delivering a carbon neutral cloud and all employee commuting and business travel emissions. In addition, we had our 1.5 degree science-based target approved by the Science-Based Targets Initiative. This included a supply chain engagement commitment whereby suppliers representing 60 percent of Salesforce's Scope 3 emissions, covering all upstream emission categories, will set science-based targets by 2024.

Salesforce Sustainability Cloud: We believe that our technology can play an important role in helping to drive climate action that will accelerate the world's efforts towards carbon neutrality and, in fiscal 2020, we launched Salesforce Sustainability Cloud, a carbon accounting product for businesses and governments to track and manage their greenhouse gas emissions.

Social

Recruiting and Managing a Global, Diverse and Skilled Workforce: Our culture is driven by our core values of trust, customer success, innovation and equality. We believe our company culture fosters open dialogue, collaboration, recognition and a sense of family, all of which allow us to attract and retain the best talent. We invest in programs designed to enhance employee success and create a safe, healthy and engaging working environment. Some examples include:

- We review the salaries and bonuses of our global workforce on an annual basis to ensure everyone is paid equally for equal work and close any unexplained gaps. To date, we have spent \$10.3 million intended to ensure equal pay for equal work. We also review differences in pay for not only gender, but also race and ethnicity in the United States;
- We aspire to have 50 percent of our U.S. workforce made up of underrepresented groups (Women, Black, Latinx, Indigenous, Multiracial, Lesbian, Gay, Bi-Sexual, Trans, Queer, People with Disabilities, and Veterans) by 2023. As of October 31, 2019, 43.9 percent of our U.S. workforce was made up of underrepresented groups;
- We support 12 employee-led and founded employee resource groups, which provide a community for underrepresented groups and their allies, offer professional development and mentoring opportunities, and empower employees to be responsive equality leaders in their community. In fiscal 2020, nearly half of our employees engaged in one or more such resource groups.

Workforce Development: Salesforce is committed to enabling the workforce to learn the skills needed to thrive in the jobs of today and tomorrow. Our free online learning platform, Trailhead, allows anyone to learn in-demand technology and business skills. To date, over 20 million badges have been earned on Trailhead.

Ethical and Humane Use of Technology: We aspire to create technology that not only drives the success of our customers, but also upholds the basic human rights of every individual. Core to this effort is the establishment of the Office of Ethical and Humane Use of Technology, working across product, law, policy, and ethics to develop and implement a strategic framework for the ethical and humane use of technology across Salesforce.

Integrated Philanthropy: We believe that business is the greatest platform for change. Together with the Salesforce Foundation, a 501(c)(3) nonprofit organization, to date we have given approximately \$330 million to charitable organizations, logged more than 4.9 million employee volunteer hours around the world and provided more than 46,000 nonprofit and higher education organizations with the use of our service offerings for free or at a discount.

Philanthropy Cloud: Philanthropy Cloud is an end-to-end solution for our customers employees' philanthropy needs, including donations, volunteering, grants management, and pledge processing.

Governance:

Data Security: Customers entrust us with their most sensitive data, and they expect us to protect it using security risk management practices and advanced systems that respond to the changing security landscape and emerging threats. We have made and will continue to make substantial investments in our cybersecurity programs. We provide an overview of our program, training, best practices for our customers, and information on system status, security issues, and compliance certificates on our website at www.trust.salesforce.com. In addition, we believe that improvements in data security are critical to realizing the potential of technology and greater connectivity to improve lives around the world and that effective cybersecurity requires an ecosystem-wide approach. This is why we work with partners and stakeholders across the globe to support legislation and initiatives such as the Cybersecurity Tech Accord that would help modernize how we approach cybersecurity as an industry.

Data Privacy: Our customers trust us to help them build meaningful relationships with their own customers. The privacy of the data that we are entrusted to protect is a top priority. Our customer agreements (templates of which

are publicly available on our website) and our privacy policies (also publicly available on our website) describe how we safeguard data with an effective privacy and security program. We also offer resources to help our customers operate globally in compliance with privacy laws such as GDPR and CCPA.

Corporate Governance: We are committed to a corporate governance structure that promotes long-term stockholder value creation by providing a leadership structure and composition of the Board of Directors that is aligned with our strategic direction and providing our stockholders with both the opportunity to provide direct feedback and key substantive rights to ensure accountability. Governance is foundational to our ESG programs and we work actively with our Board of Directors on our initiatives. For example, our Audit and Finance Committee oversees cybersecurity matters and meets regularly with our Chief Trust Officer, and our Nominating and Corporate Governance Committee oversees our ESG programs as set forth in its charter. The Privacy and Ethical Use Committee, comprised of independent directors, also oversees our privacy matters and meets regularly with our Office of Ethical and Humane Use of Technology.

Our annual proxy statement, available on the Investor Relations website, <https://investor.salesforce.com>, or www.sec.gov, provides additional details on our corporate governance practices, including our board composition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Risk

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

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

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

In January 2020, the UK exited the European Union (“EU”) (“Brexit”) and entered a transition period expected to last until the end of calendar 2020 during which the UK will continue to be subject to EU rules and regulations while it negotiates the future terms of its relationship with the EU. Brexit, and the outcome of these ongoing negotiations, could adversely affect the UK, regional (including European) and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the British Pound Sterling and Euro. We have evaluated and started to implement initiatives, such as the commitment to invest resources in Dublin, Ireland that could partially mitigate the impact Brexit could have on our operations. In fiscal 2020, 2019 and 2018 total revenues generated in Europe were approximately 20 percent, 19 percent and 18 percent of total revenues, respectively, of which substantially all were recorded in our UK subsidiary. Revenues in Europe were negatively impacted by approximately \$79 million in fiscal 2020 compared to fiscal 2019 as a result of the strengthening British Pound Sterling. We recognize that there are still significant uncertainties surrounding the ultimate resolution of Brexit negotiations, and we will continue to monitor any changes that may arise and assess their potential impact on our business.

Foreign Currency Transaction Risk

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

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

Foreign Currency Translation Risk

Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenues, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into USD. Although the USD fluctuated against certain international currencies over the past several months, the amounts of revenue and remaining performance obligation that we reported in USD for foreign subsidiaries that transact in international currencies were similar to what we would have reported during the fiscal year using a constant currency rate.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling \$7.9 billion at January 31, 2020. This amount was invested primarily in money market funds, time deposits, corporate notes and bonds, government securities and other debt securities with credit ratings of at least BBB or better. The cash, cash equivalents and marketable securities are held for general corporate purposes, including acquisitions of, or investments in, complementary businesses, services or technologies, working capital and capital expenditures. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

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

An immediate increase or decrease in interest rates of 100 basis points at January 31, 2020 could result in a \$38 million market value reduction or increase of the same amount. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

At January 31, 2019, we had cash, cash equivalents and marketable securities totaling \$4.3 billion. The fixed-income portfolio was also subject to interest rate risk. Changes in interest rates of 100-basis points would have resulted in market value changes of \$21 million.

Market Risk and Market Interest Risk

We deposit our cash with multiple financial institutions.

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

Instrument	Maturity date	Principal Outstanding as of January 31, 2020	Interest Terms	Effective interest rate for fiscal 2020
2023 Senior Notes	April 2023	\$1,000	Fixed	3.26%
2028 Senior Notes	April 2028	1,500	Fixed	3.70%
Loan assumed on 50 Fremont	June 2023	194	Fixed	3.75%
Revolving credit facility	April 2023	0	Floating	N/A

The borrowings under our revolving credit facility (“Credit Facility”) bear interest, at our option, at a base rate plus a spread of 0.00% to 0.375% or an adjusted LIBOR rate plus a spread of 0.75% to 1.375%, in each case with such spread being determined based on our credit rating. Our Revolving Credit Facility allows for the LIBOR rate to be phased-out and replaced with the Secured Overnight Financing Rate and therefore we do not anticipate a material impact by the expected upcoming LIBOR transition. Regardless of what amounts, if any, are outstanding under the Credit Facility, we are also obligated to pay an ongoing commitment fee on undrawn amounts at a rate of 0.05% to 0.175%, with such rate being based on our credit rating, payable in arrears quarterly. As of January 31, 2020, there was no outstanding borrowing amount under the Credit Facility.

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

We have an investment portfolio that includes strategic investments in privately held and publicly traded companies, which range from early-stage companies to more mature companies both domestically and internationally. We primarily invest in enterprise cloud companies, technology startups and system integrators to create and expand our ecosystem. As the enterprise cloud computing ecosystem continues to mature and technologies change, our investment strategy and corresponding investment opportunities have expanded to include investments in companies concurrently with their initial public offerings, as well as larger capital investments in late stage companies. We plan to continue these types of strategic investments, including in companies representing targeted geographies and targeted business and technological initiatives, as opportunities arise that we find attractive.

As of January 31, 2020, our portfolio consisted of investments in over 260 companies, with capital investments ranging from less than \$0.3 million to approximately \$300 million, and 27 investments with carrying values individually equal to or in excess of approximately \$10 million.

The following table sets forth additional information regarding active investments within our strategic investment portfolio as of January 31, 2020 and excludes exited investments (in millions):

Investment Type	Capital Invested	Unrealized Gains (Cumulative)	Unrealized Losses (Cumulative)	Carrying Value as of January 31, 2020
Publicly held equity securities	\$ 249	\$142	\$ (21)	\$ 370
Privately held equity securities	1,288	448	(193)	1,543
Total equity securities	\$1,537	\$590	\$(214)	\$1,913

We anticipate additional volatility to our consolidated statements of operations due to changes in market prices, observable price changes and impairments to our investments. These changes could be material based on

market conditions and events. While historically our investment portfolio has had a positive impact on our financial results, that may not be true for future periods, particularly in periods of significant market fluctuations that affect our equity securities within our strategic investments portfolio.

Our investments in privately held securities are in various classes of equity which may have different rights and preferences. The particular securities we hold, and their rights and preferences relative to those of other securities within the capital structure, may impact the magnitude by which our investment value moves in relation to movement of the total company value. As such, our investment value in a specific company may move by more or less than any change in value of that overall company. For example, an immediate decrease of ten percent in enterprise value of our significant publicly traded and privately held equity securities held as of January 31, 2020, which represents 65% of the strategic investment portfolio, could result in a \$97 million reduction to the investment portfolio. Fluctuations in the value of our privately held equity investments are only recorded when there is an observable transaction for a same or similar investment of the same issuer or in the event of impairment.

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

In addition, the financial success of our investment in any company is typically dependent on a liquidity event, such as a public offering, acquisition or other favorable market event reflecting appreciation to the cost of our initial investment. All of our investments, particularly those in privately held companies, are therefore subject to a risk of partial or total loss of invested capital.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>Page No.</u>
Reports of Independent Registered Public Accounting Firm	63
Consolidated Balance Sheets	68
Consolidated Statements of Operations	69
Consolidated Statements of Comprehensive Income	70
Consolidated Statements of Stockholders' Equity	71
Consolidated Statements of Cash Flows	72
Notes to Consolidated Financial Statements	74

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of salesforce.com, inc. (the Company) as of January 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a)2 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at January 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 5, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in Note 1 to the financial statements, the Company changed its method for accounting for leases using the modified retrospective approach at the beginning of the year ended January 31, 2020. Additionally, as discussed in Note 1 to the financial statements, the Company changed its method of accounting on a prospective basis for privately held equity securities and on a modified retrospective basis for publicly held equity investments, in the year ended January 31, 2019.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition

Description of the Matter As described in Note 1 to the financial statements, the Company recognizes revenue upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

The Company enters into contracts with its customers that may include promises to transfer multiple cloud services, software licenses, premium support and professional services. Significant judgment may be required by the Company in determining revenue recognition for these customer agreements, including the determination of whether products and services are considered distinct performance obligations that should be accounted for separately or combined as one unit of accounting and the determination of standalone selling prices for each distinct performance obligation, particularly for products and services that are not sold separately.

Given these factors, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to identify performance obligations and allocate the transaction price to those performance obligations, including controls over determining standalone selling price.

To test revenue recognized, we obtained an understanding of the Company's various product and service offerings and evaluated management's application of the revenue recognition accounting requirements to determine which product and service offerings were distinct. We read executed contracts for a sample of sales transactions to assess management's evaluation of significant terms, including the determination of distinct performance obligations, and tested the amounts recognized as revenue or recorded in unearned revenue. To test management's determination of relative standalone selling price for performance obligations, we performed audit procedures that included, among others, assessing the appropriateness of the methodology applied, testing mathematical accuracy of the underlying data and calculations, and testing selections to corroborate the data underlying the Company's calculations. We also assessed the appropriateness of the related disclosures in the financial statements.

Accounting for Business Combinations

Description of the Matter As described in Note 7 to the financial statements, the Company completed several acquisitions during fiscal year 2020 for aggregate net consideration of over \$16 billion. The most significant of these was the acquisition of Tableau Software, Inc. for total consideration of \$14.8 billion. In connection with these acquisitions, management recognized customer relationship and developed technology intangible assets of \$3.6 billion. The valuation of the customer relationship and developed technology intangible assets is complex and judgmental due to the use of subjective assumptions in the valuation models used by management when determining their estimated fair value. In particular, the fair value estimates for the acquired assets are sensitive to changes in assumptions for revenue growth, gross margin and operating expenses as a percentage of revenue.

Auditing management's valuation of these customer relationship and developed technology intangibles is complex due to the auditor judgment required to evaluate management's assumptions used in determining the fair value of these assets.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the determination of the fair value of customer relationship and developed technology intangible assets. This included controls over management's development of the above described assumptions used in the valuation models applied.

To test the estimated fair value of the customer relationship and developed technology intangible assets, we performed audit procedures that included, among others, testing the significant assumptions used in the valuation model, including validating the completeness and accuracy of the underlying data supporting the assumptions and estimates. We performed sensitivity analyses to evaluate the changes in the fair value of the assets that would result from changes in the assumptions and compared the more sensitive significant assumptions used by management to current industry and competitor data and the Company's own historical results. We also assessed the historical accuracy of management's estimates for previous acquisitions. In addition, we involved a valuation specialist to assist in our evaluation of the methodology used by the Company and the significant assumptions underlying the fair value estimates.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Redwood City, California
March 5, 2020

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited salesforce.com, inc.'s internal control over financial reporting as of January 31, 2020, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, salesforce.com, inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 31, 2020, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Tableau Software, Inc., ClickSoftware Technologies, Ltd. and Salesforce.org, which are included in the January 31, 2020 consolidated financial statements of the Company and constituted three percent and one percent of total and net assets, respectively, as of January 31, 2020 and six percent and twenty three percent of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Tableau Software, Inc., ClickSoftware Technologies, Ltd. and Salesforce.org.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 31, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a)2, and our report dated March 5, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting

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

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

/s/ Ernst & Young LLP

Redwood City, California
March 5, 2020

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

	<u>January 31, 2020</u>	<u>January 31, 2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,145	\$ 2,669
Marketable securities	3,802	1,673
Accounts receivable, net	6,174	4,924
Costs capitalized to obtain revenue contracts, net	926	788
Prepaid expenses and other current assets	916	629
Total current assets	15,963	10,683
Property and equipment, net	2,375	2,051
Operating lease right-of-use assets (Note 1)	3,040	0
Costs capitalized to obtain revenue contracts, noncurrent, net	1,348	1,232
Strategic investments	1,963	1,302
Goodwill	25,134	12,851
Intangible assets acquired through business combinations, net	4,724	1,923
Capitalized software and other assets, net	579	695
Total assets	<u>\$55,126</u>	<u>\$30,737</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 3,433	\$ 2,691
Operating lease liabilities, current (Note 1)	750	0
Unearned revenue	10,662	8,564
Total current liabilities	14,845	11,255
Noncurrent debt	2,673	3,173
Noncurrent operating lease liabilities (Note 1)	2,445	0
Other noncurrent liabilities	1,278	704
Total liabilities	<u>21,241</u>	<u>15,132</u>
Commitments and contingencies (See Notes 13 and 15)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5 shares authorized and none issued and outstanding	0	0
Common stock, \$0.001 par value; 1,600 shares authorized, 893 and 770 issued and outstanding at January 31, 2020 and 2019, respectively	1	1
Additional paid-in capital	32,116	13,927
Accumulated other comprehensive loss	(93)	(58)
Retained earnings	1,861	1,735
Total stockholders' equity	<u>33,885</u>	<u>15,605</u>
Total liabilities and stockholders' equity	<u>\$55,126</u>	<u>\$30,737</u>

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Operations

(in millions, except per share data)

	Fiscal Year Ended January 31,		
	2020	2019	2018
Revenues:			
Subscription and support	\$16,043	\$12,413	\$ 9,766
Professional services and other	1,055	869	774
Total revenues	17,098	13,282	10,540
Cost of revenues (1)(2):			
Subscription and support	3,198	2,604	2,033
Professional services and other	1,037	847	740
Total cost of revenues	4,235	3,451	2,773
Gross profit	12,863	9,831	7,767
Operating expenses (1)(2):			
Research and development	2,766	1,886	1,553
Marketing and sales	7,930	6,064	4,671
General and administrative	1,704	1,346	1,089
Loss on settlement of Salesforce.org reseller agreement (Note 7)	166	0	0
Total operating expenses	12,566	9,296	7,313
Income from operations	297	535	454
Gains on strategic investments, net	427	542	19
Other expense	(18)	(94)	(53)
Income before benefit from (provision for) income taxes	706	983	420
Benefit from (provision for) income taxes (3)	(580)	127	(60)
Net income	\$ 126	\$ 1,110	\$ 360
Basic net income per share	\$ 0.15	\$ 1.48	\$ 0.50
Diluted net income per share	\$ 0.15	\$ 1.43	\$ 0.49
Shares used in computing basic net income per share	829	751	715
Shares used in computing diluted net income per share	850	775	735

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Cost of revenues	\$ 440	\$ 215	\$ 166
Marketing and sales	352	232	121

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Cost of revenues	\$ 204	\$ 161	\$ 130
Research and development	510	307	260
Marketing and sales	852	643	469
General and administrative	219	172	138

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

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Comprehensive Income
(in millions)

	Fiscal Year Ended January 31,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income	\$126	\$1,110	\$360
Other comprehensive income (loss), net of reclassification adjustments:			
Foreign currency translation and other gains (losses)	(59)	(26)	77
Unrealized gains (losses) on marketable securities and privately held debt securities	<u>26</u>	<u>(12)</u>	<u>(4)</u>
Other comprehensive income (loss), before tax	(33)	(38)	73
Tax effect	<u>(2)</u>	<u>(1)</u>	<u>1</u>
Other comprehensive income (loss), net	<u>(35)</u>	<u>(39)</u>	<u>74</u>
Comprehensive income	<u>\$ 91</u>	<u>\$1,071</u>	<u>\$434</u>

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Stockholders' Equity
(in millions)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2017	707	\$1	\$ 8,040	\$(86)	\$ 275	\$ 8,230
Common stock issued	23	0	709	0	0	709
Shares issued related to business combinations	0	0	12	0	0	12
Temporary equity reclassifications related to convertible notes	0	0	(4)	0	0	(4)
Stock-based expenses	0	0	995	0	0	995
Other comprehensive income, net of tax	0	0	0	74	0	74
Net income	0	0	0	0	360	360
Balance at January 31, 2018	730	1	9,752	(12)	635	10,376
Cumulative effect of accounting changes	0	0	0	(7)	(10)	(17)
Common stock issued	21	0	695	0	0	695
Shares issued related to business combinations	13	0	2,195	0	0	2,195
Settlement of convertible notes and warrants	6	0	4	0	0	4
Stock-based expenses	0	0	1,281	0	0	1,281
Other comprehensive loss, net of tax	0	0	0	(39)	0	(39)
Net income	0	0	0	0	1,110	1,110
Balance at January 31, 2019	770	1	13,927	(58)	1,735	15,605
Common stock issued	21	0	816	0	0	816
Shares issued related to business combinations	102	0	15,588	0	0	15,588
Stock-based expenses	0	0	1,785	0	0	1,785
Other comprehensive loss, net of tax	0	0	0	(35)	0	(35)
Net income	0	0	0	0	126	126
Balance at January 31, 2020	893	\$1	\$32,116	\$(93)	\$1,861	\$33,885

See accompanying Notes.

salesforce.com, inc.

Consolidated Statements of Cash Flows
(in millions)

	Fiscal Year Ended January 31,		
	2020	2019	2018
Operating activities:			
Net income	\$ 126	\$ 1,110	\$ 360
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,135	982	784
Amortization of costs capitalized to obtain revenue contracts, net	876	737	592
Expenses related to employee stock plans	1,785	1,283	997
Loss on settlement of Salesforce.org reseller agreement (Note 7)	166	0	0
Gains on strategic investments, net	(427)	(542)	(19)
Changes in assets and liabilities, net of business combinations:			
Accounts receivable, net	(1,000)	(923)	(719)
Costs capitalized to obtain revenue contracts, net	(1,130)	(981)	(1,156)
Prepaid expenses and other current assets and other assets	(119)	(58)	18
Accounts payable	15	74	(39)
Accrued expenses and other liabilities	967	213	392
Operating lease liabilities	(728)	0	0
Unearned revenue	1,665	1,503	1,528
Net cash provided by operating activities	4,331	3,398	2,738
Investing activities:			
Business combinations, net of cash acquired	(369)	(5,115)	(25)
Purchases of strategic investments	(768)	(362)	(216)
Sales of strategic investments	434	260	131
Purchases of marketable securities	(3,857)	(1,068)	(2,003)
Sales of marketable securities	1,444	1,426	558
Maturities of marketable securities	779	146	78
Capital expenditures	(643)	(595)	(534)
Net cash used in investing activities	(2,980)	(5,308)	(2,011)
Financing activities:			
Proceeds from issuance of debt, net	0	2,966	0
Proceeds from employee stock plans	840	704	650
Principal payments on financing obligations (1)	(173)	(131)	(106)
Repayments of debt	(503)	(1,529)	(323)
Net cash provided by financing activities	164	2,010	221
Effect of exchange rate changes	(39)	26	(12)
Net increase in cash and cash equivalents	1,476	126	936
Cash and cash equivalents, beginning of period	2,669	2,543	1,607
Cash and cash equivalents, end of period	\$ 4,145	\$ 2,669	\$ 2,543

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

See accompanying Notes.

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Supplemental cash flow disclosure:			
Cash paid during the period for:			
Interest	\$ 106	\$ 94	\$40
Income taxes, net of tax refunds	\$ 129	\$ 83	\$53
Non-cash investing and financing activities:			
Fair value of equity awards assumed	\$ 373	\$ 480	\$ 0
Fair value of common stock issued as consideration for business combinations	\$15,215	\$1,715	\$12

See accompanying Notes.

Notes to Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

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

The Company’s core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, blockchain, voice, advanced analytics and artificial intelligence (“AI”) technologies. Salesforce’s Customer 360 is an integrated platform that unites sales, service, marketing, commerce, integration, analytics and more to give companies a single, shared view of their customers.

Fiscal Year

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

Use of Estimates

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

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

Principles of Consolidation

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

Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision makers

(“CODMs”), in deciding how to allocate resources and assess performance. For fiscal 2020, our CODMs were Marc Benioff, who is the chief executive officer and the chair of the board, and Keith Block, who served as co-chief executive officer until February 25, 2020. Over the past few years, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments of the enterprise cloud computing market.

While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company’s acquisitions, and operates in multiple countries, the Company’s business operates in one operating segment because most of the Company’s offerings operate on its single Customer 360 Platform and most of the Company’s products are deployed in a nearly identical way, and the Company’s CODMs evaluate the Company’s financial information and resources and assess the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements.

Concentrations of Credit Risk, Significant Customers and Investments

The Company’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities and accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for its doubtful accounts receivable. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts. Receivables are written-off and charged against the recorded allowance when the Company has exhausted collection efforts without success. The Company had an allowance for doubtful accounts of \$23 million and \$22 million at January 31, 2020 and 2019, respectively.

No single customer accounted for more than five percent of accounts receivable at January 31, 2020 and January 31, 2019. No single customer accounted for five percent or more of total revenue during fiscal 2020, 2019 and 2018. As of January 31, 2020 and January 31, 2019, assets located outside the Americas were 12 percent and 14 percent of total assets, respectively. As of January 31, 2020 and January 31, 2019, assets located in the United States were 87 percent and 84 percent of total assets, respectively.

The Company is also exposed to concentrations of risk in its strategic investment portfolio. As of January 31, 2020, the Company held five investments with carrying values that were individually greater than five percent of its total strategic investments, of which one was publicly traded and four were privately held. As of January 31, 2019, the Company held five investments that were individually greater than five percent of its total strategic investments, of which four were publicly traded and one was privately held.

Revenue Recognition

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing the Company’s enterprise cloud computing services (collectively, “Cloud Services”), software licenses, and from customers paying for additional support beyond the standard support that is included in the basic subscription fees; and (2) related professional services such as process mapping, project management and implementation services. Other revenue consists primarily of training fees.

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

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

- Identification of the contract, or contracts with a customer;

- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

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

Subscription and Support Revenues

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

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

With the May 2018 acquisition of MuleSoft, Inc. ("MuleSoft") and the August 2019 acquisition of Tableau Software, Inc. ("Tableau"), subscription and support revenues also includes revenues associated with software licenses. These licenses for on-premises software provide the customer with a right to use the software as it exists when made available. Customers purchase these term licenses through a subscription. Revenues from distinct licenses are generally recognized upfront when the software is made available to the customer. In cases where the Company allocates revenue to software updates and support revenue is recognized as the updates are provided, which is generally ratably over the contract term.

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

Professional Services and Other Revenues

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

Significant Judgments - Contracts with Multiple Performance Obligations

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

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

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

The Company determines SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company’s discounting practices, the size and volume of the Company’s transactions, the customer demographic, the geographic area where services are sold, price lists, the Company’s go-to-market strategy, historical sales and contract prices. In instances where the Company does not sell or price a product or service separately, the Company determines relative fair value using information that may include market conditions or other observable inputs. As the Company’s go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

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

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

Costs Capitalized to Obtain Revenue Contracts

The Company capitalizes incremental costs of obtaining a non-cancelable subscription and support revenue contract. The capitalized amounts consist primarily of sales commissions paid to the Company’s direct sales force. Capitalized amounts also include (1) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, (2) commissions paid to employees upon renewals of subscription and support contracts, (3) the associated payroll taxes and fringe benefit costs associated with the payments to the Company’s employees, and to a lesser extent (4) success fees paid to partners in emerging markets where the Company has a limited presence.

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

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

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

During fiscal 2020, the Company capitalized \$1.1 billion of costs to obtain revenue contracts and amortized \$0.9 billion to marketing and sales expense. During the same period a year ago, the Company capitalized \$1.0 billion of costs to obtain revenue contracts and amortized \$0.7 billion to marketing and sales expense. Costs capitalized to obtain a revenue contract, net on the Company’s consolidated balance sheets totaled \$2.3 billion at January 31, 2020 and \$2.0 billion at January 31, 2019. There were no impairments of costs to obtain revenue contracts for fiscal 2020, 2019 and 2018, respectively.

Cash and Cash Equivalents

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

Marketable Securities

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

Strategic Investments

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

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

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

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

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

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in the Euro, British Pound Sterling, Japanese Yen, Canadian Dollar and Australian Dollar. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. The Company generally enters into master netting arrangements with the financial institutions with which it contracts for such derivative contracts, which permit net settlement of transactions with the same counterparty, thereby reducing credit-related losses in the event of the financial institutions' nonperformance. As of January 31, 2020 and January 31, 2019, the outstanding foreign currency derivative contracts were recorded at fair value on the consolidated balance sheets.

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

Fair Value Measurement

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

Property and Equipment

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

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

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

Capitalized Software Costs

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

Intangible Assets Acquired through Business Combinations

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

Impairment Assessment

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

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

There were no material impairments of capitalized software, intangible assets, long-lived assets or goodwill during fiscal 2020, 2019, and 2018, respectively.

Business Combinations

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

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

Leases

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

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

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

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

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

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

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

Stock-Based Expense

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

Stock-based expenses related to the Company’s Amended and Restated 2004 Employee Stock Purchase Plan (“ESPP” or “2004 Employee Stock Purchase Plan”) are measured based on grant date at fair value using the Black-Scholes option pricing model. The Company recognizes stock-based expenses related to shares issued pursuant to the 2004 Employee Stock Purchase Plan on a straight-line basis over the offering period, which is 12 months. The ESPP allows employees to purchase shares of the Company’s common stock at a 15 percent discount and also allows employees to reduce their percentage election once during a six month purchase period

(December 15 and June 15 of each fiscal year), but not increase that election until the next one-year offering period. The ESPP also includes a re-set provision for the purchase price if the stock price on the purchase date is less than the stock price on the offering date.

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

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

Advertising Expenses

Advertising is expensed as incurred. Advertising expense was \$660 million, \$482 million and \$373 million for fiscal 2020, 2019 and 2018, respectively.

Income Taxes

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

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

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

Foreign Currency Translation

The functional currency of the Company's major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component on the consolidated statement of comprehensive income. Foreign currency transaction gains and losses are included in other income in the consolidated statement of operations for the

period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

Warranties and Indemnification

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

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

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

New Accounting Pronouncements Adopted in Fiscal 2020

ASU 2016-02

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

Effective on February 1, 2019, the Company adopted the provisions and expanded disclosure requirements described in Topic 842. The Company adopted the standard using the transitional provision of Accounting Standards Update 2018-11, "Leases (Topic 842) Targeted Improvements", which allows for the adoption of Topic 842 at the beginning of the fiscal year of adoption. As such, the consolidated balance sheet as of January 31, 2020 is not comparable with that as of January 31, 2019. The Company elected the package of practical expedients and therefore did not reassess prior conclusions on whether contracts are or contain a lease, lease classification, and initial direct costs. The Company did not use hindsight when determining the lease term.

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

Accounting Pronouncements Pending Adoption

ASU 2016-13

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

ASU 2019-12

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”)”, which modifies and eliminates certain exceptions to the general principles of ASC 740, Income taxes. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact of the adoption to its consolidated financial statements.

Reclassifications

Certain reclassifications to fiscal 2019 and fiscal 2018 balances were made to conform to the current period presentation in the consolidated balance sheets and statements of operations. None of these reclassifications had an impact to the Company’s key metrics including Total Assets, Total Revenues, Income From Operations, Net Income or Operating Cash Flows.

2. Revenues

Disaggregation of Revenue

Subscription and Support Revenue by the Company’s service offerings

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Sales Cloud	\$ 4,598	\$ 4,040	\$3,588
Service Cloud	4,466	3,621	2,883
Salesforce Platform and Other (1)	4,473	2,854	1,913
Marketing and Commerce Cloud	2,506	1,898	1,382
	<u>\$16,043</u>	<u>\$12,413</u>	<u>\$9,766</u>

(1) Includes approximately \$652 million of revenue in Fiscal 2020 from the Tableau acquisition.

Total Revenue by Geographic Locations

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Americas	\$12,051	\$ 9,445	\$ 7,621
Europe	3,430	2,553	1,916
Asia Pacific	1,617	1,284	1,003
	<u>\$ 17,098</u>	<u>\$13,282</u>	<u>\$10,540</u>

Revenues by geography are determined based on the region of the Company's contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent during fiscal 2020, 2019 and 2018, respectively. No other country represented more than ten percent of total revenue during fiscal 2020, 2019 and 2018, respectively.

Contract Balances

Contract Asset

As described in Note 1, subscription and support revenue is generally recognized ratably over the contract term beginning on the commencement date of each contract. License revenue is recognized as the licenses are delivered. The Company records a contract asset when revenue recognized on a contract exceeds the billings. The Company's standard billing terms are annual in advance. Contract assets were \$449 million as of January 31, 2020 as compared to \$215 million as of January 31, 2019, and are included in prepaid expenses and other current assets on the consolidated balance sheet. Contract assets as of January 31, 2020 include the acquired contract asset balance from the Tableau acquisition in August 2019 of \$131 million. Impairments of contract assets were immaterial during fiscal 2020, 2019 and 2018, respectively.

Unearned Revenue

Unearned revenue represents amounts that have been invoiced in advance of revenue recognition and is recognized as revenue when transfer of control to customers has occurred or services have been provided. The unearned revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. The Company generally invoices customers in annual installments. The unearned revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, dollar size and new business linearity within the quarter.

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

	Fiscal Year Ended January 31,	
	2020	2019
Unearned revenue, beginning of period	\$ 8,564	\$ 6,995
Billings and other (1)	18,662	14,770
Contribution from contract asset	101	13
Revenue recognized ratably over time	(15,586)	(12,426)
Revenue recognized over time as delivered	(716)	(629)
Revenue recognized at a point in time	(796)	(227)
Unearned revenue from business combinations	433	68
Unearned revenue, end of period	<u>\$ 10,662</u>	<u>\$ 8,564</u>

(1) Other includes, for example, the impact of foreign currency translation.

Revenue recognized ratably over time is generally billed in advance and includes Cloud Services, the related support and advisory services.

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

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

Approximately 50 percent of total revenue recognized in fiscal 2020 is from the unearned revenue balance as of January 31, 2019.

Remaining Performance Obligation

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

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

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

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
As of January 31, 2020 (1)	\$15.0	\$15.8	\$30.8
As of January 31, 2019	\$11.9	\$13.8	\$25.7

(1) Includes approximately \$450 million and \$650 million of remaining performance obligation related to the Salesforce.org business combination in June 2019 and the Tableau acquisition in August 2019, respectively.

3. Investments

Marketable Securities

At January 31, 2020, marketable securities consisted of the following (in millions):

<u>Investments classified as Marketable Securities</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Corporate notes and obligations	\$2,199	\$ 9	\$(1)	\$2,207
U.S. treasury securities	182	1	0	183
Mortgage backed obligations	225	1	0	226
Asset backed securities	779	2	0	781
Municipal securities	157	1	0	158
Foreign government obligations	69	0	0	69
U.S. agency obligations	12	0	0	12
Time deposits	1	0	0	1
Covered bonds	165	0	0	165
Total marketable securities	<u>\$3,789</u>	<u>\$14</u>	<u>\$(1)</u>	<u>\$3,802</u>

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

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

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

	<u>As of</u>	
	<u>January 31, 2020</u>	<u>January 31, 2019</u>
Due within 1 year	\$1,332	\$ 482
Due in 1 year through 5 years	2,466	1,189
Due in 5 years through 10 years	4	2
	<u>\$3,802</u>	<u>\$1,673</u>

As of January 31, 2020, the following marketable securities were in an unrealized loss position (in millions):

	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Corporate notes and obligations	\$285	\$(1)	\$0	\$0	\$285	\$(1)

The unrealized losses for each of the fixed rate marketable securities were less than \$1 million. The Company does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of January 31, 2020, such as the Company's intent to hold the investment and whether it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized basis. The Company expects to receive the full principal and interest on all of these marketable securities.

Investment Income

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Interest income	\$117	\$61	\$37
Realized gains	2	1	1
Realized losses	(1)	(5)	(2)
Investment income	<u>\$118</u>	<u>\$57</u>	<u>\$36</u>

Strategic Investments

Strategic investments by form and measurement category as of January 31, 2020 were as follows (in millions):

	Measurement Category			
	Fair Value	Measurement Alternative	Other	Total
Equity securities	\$370	\$1,502	\$40	\$1,912
Debt securities	0	0	51	51
Balance as of January 31, 2020	<u>\$370</u>	<u>\$1,502</u>	<u>\$91</u>	<u>\$1,963</u>

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

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

Measurement Alternative Adjustments

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

	Fiscal Year Ended January 31,	
	2020	2019
Carrying amount, beginning of period	\$ 785	\$548
Adjustments related to privately held equity securities:		
Net additions (1)	507	95
Upward adjustments	280	174
Impairments and downward adjustments	(70)	(32)
Carrying amount, end of period	<u>\$1,502</u>	<u>\$785</u>

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

In April 2019 the Company made a strategic investment of \$100 million in cash for common shares of a technology company in a private placement concurrent with the investee company's initial public offering. In September 2019, the Company made a strategic investment of \$300 million in cash for preferred shares of a technology company in a preferred stock financing. Additionally, in November 2019, the Company made a strategic investment of \$150 million in cash for preferred shares of a technology company in a preferred stock financing. These investments were made as part of the Company's overall strategy of investing in complementary companies to facilitate potential alignment and integration into the Company's offerings or product features. These investments are accounted for using the measurement alternative.

Since the adoption of ASU 2016-01 on February 1, 2018, cumulative impairments and downward adjustments were \$102 million and cumulative upward adjustments were \$454 million through January 31, 2020.

Gains (losses) on strategic investments, net

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Unrealized gains recognized on publicly traded equity securities, net	\$138	\$345	\$ 0
Unrealized gains recognized on privately held equity securities, net	208	133	19
Realized gains on sales of equity securities, net	95	74	0
Losses on debt securities, net	(14)	(10)	0
Gains on strategic investments, net	<u>\$427</u>	<u>\$542</u>	<u>19</u>

Realized gains on sales of equity securities, net reflects the difference between the sale proceeds and the carrying value of the equity security at the beginning of the period or the purchase date, if later. The cumulative net realized gain, measured as the sale price less the initial purchase price, for equity securities exited during fiscal 2020 is \$353 million.

Net unrealized gains recognized in fiscal 2020 for strategic investments still held as of January 31, 2020 were \$290 million.

4. Derivatives

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

	As of	
	<u>January 31, 2020</u>	<u>January 31, 2019</u>
Notional amount of foreign currency derivative contracts	\$5,543	\$4,496
Fair value of foreign currency derivative contracts	4	25

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

	<u>Balance Sheet Location</u>	As of	
		<u>January 31, 2020</u>	<u>January 31, 2019</u>
Derivative Assets			
Foreign currency derivative contracts	Prepaid expenses and other current assets	\$28	\$42
Derivative Liabilities			
Foreign currency derivative contracts	Accounts payable, accrued expenses and other liabilities	\$24	\$17

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

	<u>Fiscal Year Ended January 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Foreign currency derivative contracts	\$(9)	\$34	\$15

5. Fair Value Measurement

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

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

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

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

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

The following table presents information about the Company’s assets and liabilities that are measured at fair value as of January 31, 2020 and indicates the fair value hierarchy of the valuation (in millions):

<u>Description</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance as of January 31, 2020</u>
Cash equivalents (1):				
Time deposits	\$ 0	\$ 746	\$ 0	\$ 746
Money market mutual funds	1,293	0	0	1,293
Marketable securities:				
Corporate notes and obligations	0	2,207	0	2,207
U.S. treasury securities ...	0	183	0	183
Mortgage backed obligations	0	226	0	226
Asset backed securities ...	0	781	0	781
Municipal securities	0	158	0	158
Foreign government obligations	0	69	0	69
U.S. agency obligations ...	0	12	0	12
Time deposits	0	1	0	1
Covered bonds	0	165	0	165
Strategic investments:				
Publicly held equity securities	370	0	0	370
Foreign currency derivative contracts (2)	<u>0</u>	<u>28</u>	<u>0</u>	<u>28</u>
Total assets	<u>\$1,663</u>	<u>\$4,576</u>	<u>\$ 0</u>	<u>\$6,239</u>
Liabilities:				
Foreign currency derivative contracts (3)	<u>0</u>	<u>24</u>	<u>0</u>	<u>24</u>
Total liabilities	<u>\$ 0</u>	<u>\$ 24</u>	<u>\$ 0</u>	<u>\$ 24</u>

- (1) Included in “cash and cash equivalents” in the accompanying consolidated balance sheet as of January 31, 2020, in addition to \$2.1 billion of cash.
- (2) Included in “prepaid expenses and other current assets” in the accompanying consolidated balance sheet as of January 31, 2020.
- (3) Included in “accounts payable, accrued expenses and other liabilities” in the accompanying consolidated balance sheet as of January 31, 2020.

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

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

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

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

The Company’s privately held debt and equity securities and equity method investments are recorded at fair value on a non-recurring basis. The estimation of fair value for these investments requires the use of significant unobservable inputs, and as a result, the Company classifies these assets as Level 3 within the fair value hierarchy. For example, the Company’s privately held equity securities that have been remeasured are classified within Level 3 in the fair value hierarchy because the value is based on valuation methods using the observable transaction price and other unobservable inputs including the volatility, rights, and obligations of the securities the Company holds. The Company’s privately held debt and equity securities and equity method investments amounted to \$1.6 billion as of January 31, 2020 and \$0.9 billion as of January 31, 2019.

6. Property and Equipment and Other Balance Sheet Accounts

Property and Equipment

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

	As of	
	<u>January 31, 2020</u>	<u>January 31, 2019</u>
Land	\$ 184	\$ 184
Buildings and building improvements	777	629
Computers, equipment and software	1,608	1,735
Furniture and fixtures	226	188
Leasehold improvements	<u>1,381</u>	<u>1,098</u>
Property and equipment, gross	4,176	3,834
Less accumulated depreciation and amortization	<u>(1,801)</u>	<u>(1,783)</u>
Property and equipment, net	<u><u>\$ 2,375</u></u>	<u><u>\$ 2,051</u></u>

Depreciation and amortization expense totaled \$455 million, \$411 million and \$373 million during fiscal 2020, 2019 and 2018, respectively.

Computers, equipment and software at January 31, 2019 included a total of \$671 million acquired under capital lease agreements, as reported prior to the adoption of Topic 842. Accumulated amortization relating to computers, equipment and software acquired under capital leases totaled \$480 million at January 31, 2019. Amortization of assets acquired under capital leases was included in depreciation and amortization expense for fiscal 2019 and 2018.

Other Balance Sheet Accounts

Accounts payable, accrued expenses and other liabilities as of January 31, 2020 included approximately \$1.5 billion of accrued compensation as compared to \$1.2 billion as of January 31, 2019.

7. Business Combinations

Fiscal Year 2020

Tableau Software, Inc.

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

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

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

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

	<u>Fair Value</u>
Cash and cash equivalents	\$ 644
Marketable securities	456
Accounts receivable	174
Contract asset	131
Operating lease right-of-use assets	361
Other assets	116
Acquired customer contract asset	56
Goodwill	10,806
Intangible assets	3,252
Accounts payable, accrued expenses and other liabilities	(257)
Unearned revenue	(242)
Operating lease liabilities	(332)
Deferred tax liability and income tax payable	(320)
Net assets acquired	<u>\$14,845</u>

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

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

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

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

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

The amounts of revenue and earnings of Tableau included in the Company's consolidated statement of operations from the acquisition date of August 1, 2019 to January 31, 2020 are as follows (in millions):

Total revenues	\$ 689
Pretax loss	(503)

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

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

	Fiscal Year Ended January 31,	
	2020	2019
Total revenues	\$17,599	\$14,256
Pretax income (loss)	270	(82)
Net income (loss)	(292)	297

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

The pro forma financial information for fiscal 2020 and 2019 combines the historical results of the Company for fiscal 2020 and 2019, the adjusted historical results of Tableau for the six months ended June 30, 2019 and the twelve months ended December 31, 2018, considering the differences in reporting periods and the date the Company acquired Tableau, and the effects of the pro forma adjustments listed above. Prior to being acquired, Tableau's fiscal year concluded on December 31.

ClickSoftware Technologies, Ltd.

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

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

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

outstanding equity awards for ClickSoftware’s common stock into equity awards for shares of the Company’s common stock.

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

	<u>Fair Value</u>
Cash and cash equivalents	\$ 38
Accounts receivable	28
Goodwill	1,132
Intangible assets	276
Other assets	33
Accounts payable, accrued expenses and other liabilities, current and noncurrent	(55)
Unearned revenue	(40)
Deferred tax liability	<u>(26)</u>
Net assets acquired	<u>\$1,386</u>

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

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

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

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

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

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

Salesforce.org

In June 2019, Salesforce.org, the independent nonprofit social enterprise that resold the Company’s service offerings to non-profit and higher education organizations, was combined with the Company. The Company has

included the financial results of Salesforce.org, which are not material to income from operations in fiscal 2020, in the consolidated financial statements from the date of acquisition. The business combination with Salesforce.org in June 2019 contributed approximately \$228 million total revenues in fiscal 2020. The transaction costs associated with the acquisition were not material.

The Company paid a one-time cash payment of \$300 million for all shares of Salesforce.org to the independent, non-consolidated Salesforce.com Foundation (also referred to as the Foundation), which is considered a related party as discussed in Note 16 “Related-Party Transactions.”

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

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

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

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

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

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

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

MapAnything

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

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

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

Fiscal Year 2019

Datorama

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

	<u>Fair Value</u>
Cash	\$136
Common stock issued	537
Fair value of stock options and restricted stock awards assumed	<u>93</u>
Total	<u>\$766</u>

The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.4133 was applied to convert Datorama’s outstanding equity awards for Datorama’s common stock into equity awards for shares of the Company’s common stock.

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

	<u>Fair Value</u>
Cash and cash equivalents	\$ 21
Accounts receivable	9
Other current and noncurrent assets	3
Intangible assets	202
Goodwill	586
Accounts payable, accrued expenses and other liabilities, current and noncurrent	(10)
Unearned revenue	(4)
Deferred tax liability	<u>(41)</u>
Net assets acquired	<u>\$766</u>

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions.

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

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

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

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

MuleSoft

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

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

The fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.3680 was applied to convert MuleSoft's outstanding equity awards for MuleSoft's common stock into equity awards for shares of the Company's common stock.

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

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

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The deferred tax liability established was primarily a result of the difference in the book basis and tax basis related to the identifiable intangible assets.

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

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

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

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

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

Total revenues	\$ 431
Pretax loss	(286)

CloudCraze

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

The acquisition date fair value of the consideration transferred for CloudCraze was approximately \$190 million, which consisted of cash and the fair value of stock options and restricted stock awards assumed. The Company recorded approximately \$58 million for developed technology and customer relationships with estimated useful lives of one to seven years. The Company recorded approximately \$134 million of goodwill which is primarily attributed to the assembled workforce and expanded market opportunities from integrating CloudCraze’s technology with the Company’s other offerings. The goodwill balance is deductible for U.S. income tax purposes.

Fiscal Year 2018

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

8. Intangible Assets Acquired Through Business Combinations and Goodwill

Intangible assets acquired through business combinations

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

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Remaining Useful Life (Years)
	January 31, 2019	Additions and retirements, net	January 31, 2020	January 31, 2019	Expense and retirements, net	January 31, 2020	January 31, 2019	January 31, 2020	
Acquired developed technology	\$1,429	\$2,169	\$3,598	\$ (889)	\$(360)	\$(1,249)	\$ 540	\$2,349	4.1
Customer relationships	1,938	1,314	3,252	(560)	(328)	(888)	1,378	2,364	6.5
Other (1)	52	20	72	(47)	(14)	(61)	5	11	0.9
Total	\$3,419	\$3,503	\$6,922	\$(1,496)	\$(702)	\$(2,198)	\$1,923	\$4,724	5.3

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

Amortization of intangible assets resulting from business combinations for fiscal 2020, 2019 and 2018 was \$792 million, \$447 million and \$287 million, respectively.

The expected future amortization expense for intangible assets as of January 31, 2020 is as follows (in millions):

Fiscal Period:	
Fiscal 2021	\$1,059
Fiscal 2022	984
Fiscal 2023	833
Fiscal 2024	750
Fiscal 2025	513
Thereafter	585
Total amortization expense	\$4,724

Customer contract assets acquired through business combinations

Customer contract assets resulting from business combinations reflects the fair value of future billings of amounts that are contractually committed by acquired companies' existing customers as of the acquisition date. Customer contract assets are amortized over the corresponding contract terms. Customer contract assets resulting from business combinations for the fiscal year ended January 31, 2020 were \$93 million, including \$56 million resulting from the Tableau acquisition in August 2019, and \$121 million for the fiscal year ended January 31, 2019, respectively, and are included in other assets on the consolidated balance sheets.

Goodwill

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

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

Balance at January 31, 2018	\$ 7,314
Acquisitions	5,536
Other adjustments	<u>1</u>
Balance as of January 31, 2019	\$12,851
Tableau	10,806
ClickSoftware	1,132
Salesforce.org	164
MapAnything	152
Other acquisitions and adjustments (1)	<u>29</u>
Balance as of January 31, 2020	<u>\$25,134</u>

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

9. Debt

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

Instrument	Date of issuance	Maturity date	Effective interest rate for fiscal 2020	January 31, 2020	January 31, 2019
2021 Term Loan (1)	May 2018	May 2021	3.07%	\$ 0	\$ 499
2023 Senior Notes	April 2018	April 2023	3.26%	995	993
2028 Senior Notes	April 2018	April 2028	3.70%	1,489	1,488
Loan assumed on 50 Fremont	February 2015	June 2023	3.75%	<u>193</u>	<u>196</u>
Total carrying value of debt				2,677	3,176
Less current portion of debt				<u>(4)</u>	<u>(3)</u>
Total noncurrent debt				<u>\$2,673</u>	<u>\$3,173</u>

(1) The Company repaid in full the 2021 Term Loan in fiscal 2020.

Each of the Company's debt agreements requires it to maintain compliance with certain debt covenants, all of which the Company was in compliance with as of January 31, 2020.

The total estimated fair value of the Company's 2023 and 2028 Senior Notes at January 31, 2020 was \$2.7 billion. The fair value was determined based on the closing trading price per \$100 of the 2023 and 2028 Senior Notes as of the last day of trading for the fourth quarter of fiscal 2020 and is deemed a Level 2 liability within the fair value measurement framework.

The expected future principal payments for all borrowings as of January 31, 2020 is as follows (in millions):

Fiscal period:	
Fiscal 2021	\$ 4
Fiscal 2022	4
Fiscal 2023	4
Fiscal 2024	1,182
Thereafter	<u>1,500</u>
Total principal outstanding	<u>\$2,694</u>

Revolving Credit Facility

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

There were no outstanding borrowings under the Credit Facility as of January 31, 2020. The Company continues to pay a commitment fee on the available amount of the Credit Facility, which is included within other expense in the Company’s consolidated statement of operations.

Interest Expense on Debt

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Contractual interest expense	\$106	\$106	\$23
Amortization of debt issuance costs	4	16	5
Amortization of debt discount	0	4	26
	<u>\$ 110</u>	<u>\$ 126</u>	<u>\$ 54</u>

10. Stockholders’ Equity

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

As of January 31, 2020 and January 31, 2019, \$107 million and \$76 million, respectively, was withheld on behalf of employees for future purchases under the ESPP and is recorded in accrued compensation.

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

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

<u>Stock Options</u>	Fiscal Year Ended January 31,		
	2020	2019	2018
Volatility	27-30%	27-28%	28-31%
Estimated life	3.5 years	3.5 years	3.5 years
Risk-free interest rate	1.6-2.5%	2.5-3.0%	1.4-2.3%
Weighted-average fair value per share of grants	\$ 39.59	\$ 28.89	\$ 22.71
	Fiscal Year Ended January 31,		
	2020	2019	2018
<u>ESPP</u>			
Volatility	28-33%	23-26%	21-28%
Estimated life	0.75 years	0.75 years	0.75 years
Risk-free interest rate	1.6-2.1%	2.0-2.6%	1.1-1.7%
Weighted-average fair value per share of grants	\$ 41.43	\$ 32.90	\$ 23.64

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

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

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

In fiscal 2020 and 2019, the Company granted performance-based restricted stock unit awards to certain employees, including the Chair of the Board and Chief Executive Officer and other senior executives. The performance-based restricted stock unit awards are subject to vesting based on a performance-based condition and a service-based condition. At the end of the three-year service period, based on the Company's share price performance, these performance-based restricted stock units will vest in a percentage of the target number of shares between 0 and 200%, depending on the extent the performance condition is achieved.

Stock option activity, excluding the ESPP is as follows:

	Shares Available for Grant (in millions)	Options Outstanding		
		Outstanding Stock Options (in millions)	Weighted- Average Exercise Price	Aggregate Intrinsic Value (in millions)
Balance as of January 31, 2019	64	26	\$ 74.15	
Increase in shares authorized:				
2013 Equity Incentive Plan . . .	36	0	0.00	
2014 Inducement Plan	2	0	0.00	
Assumed equity plans	13	0	0.00	
Options granted under all plans	(10)	10	132.72	
Restricted stock activity	(28)	0	0.00	
Performance-based restricted stock units	(2)	0	0.00	
Exercised	0	(7)	55.67	
Plan shares expired or canceled	<u>2</u>	<u>(2)</u>	116.84	
Balance as of January 31, 2020	<u>77</u>	<u>27</u>	<u>\$ 98.56</u>	<u>\$2,222</u>
Vested or expected to vest		<u>25</u>	<u>\$ 95.80</u>	<u>\$2,155</u>
Exercisable as of January 31, 2020		<u>14</u>	<u>\$ 66.34</u>	<u>\$1,589</u>

The total intrinsic value of the options exercised during fiscal 2020, 2019, and 2018 was \$799 million, \$784 million, and \$373 million, respectively. The intrinsic value of options exercised during each fiscal year is calculated as the difference between the market value of the stock at the time of exercise and the exercise price of the stock option.

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

As of January 31, 2020, options to purchase 14 million shares were vested at a weighted-average exercise price of \$66.34 per share and had a remaining weighted-average contractual life of approximately three years. The total intrinsic value of these vested options based on the market value of the stock as of January 31, 2020 was approximately \$1.6 billion.

During fiscal 2020, the Company recognized stock-based expense related to its equity plans for employees and non-employee directors of \$1.8 billion. As of January 31, 2020, the aggregate stock compensation remaining to be recognized to costs and expenses was approximately \$4.0 billion.

The aggregate stock compensation remaining to be recognized as of January 31, 2020 is as follows (in millions):

Fiscal Period:	
Fiscal 2021	\$1,787
Fiscal 2022	1,254
Fiscal 2023	778
Fiscal 2024	<u>197</u>
Total stock compensation	<u>\$4,016</u>

The expected stock compensation remaining to be recognized reflects only outstanding stock awards as of January 31, 2020 and assumes no forfeiture activity. The aggregate stock compensation remaining to be recognized to costs and expenses will be recognized over a weighted-average period of two years.

The following table summarizes information about stock options outstanding as of January 31, 2020:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding (in millions)</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Weighted-Average Exercise Price</u>	<u>Number of Shares (in millions)</u>	<u>Weighted-Average Exercise Price</u>
\$0.36 to \$52.30	5	3.7	\$ 29.10	4	\$ 30.55
\$54.36 to \$75.57	6	3.0	67.41	5	66.08
\$76.48 to \$113.00	3	3.4	83.71	3	82.59
\$118.04	4	5.1	118.04	2	118.04
\$122.03 to \$158.76	3	6.3	145.38	0	133.49
\$161.50	<u>6</u>	6.1	161.50	<u>0</u>	0.00
	<u>27</u>	4.5	\$ 98.56	<u>14</u>	\$ 66.34

Restricted stock activity is as follows:

	<u>Restricted Stock Outstanding</u>		
	<u>Outstanding (in millions)</u>	<u>Weighted-Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value (in millions)</u>
Balance as of January 31, 2019	21	\$103.33	
Granted - restricted stock units and awards	20	156.21	
Granted - performance-based stock units	1	161.50	
Canceled	(2)	120.93	
Vested and converted to shares	<u>(12)</u>	106.39	
Balance as of January 31, 2020	<u>28</u>	<u>\$140.14</u>	<u>\$5,128</u>
Expected to vest	<u>24</u>		<u>\$4,452</u>

The restricted stock, which upon vesting entitles the holder to one share of common stock for each share of restricted stock, has an exercise price of \$0.001 per share, which is equal to the par value of the Company's

common stock, and generally vests over four years. The total fair value of shares vested during fiscal 2020, 2019 and 2018 was \$1.9 billion, \$1.1 billion and \$1.0 billion, respectively.

Common Stock

The following number of shares of common stock were reserved and available for future issuance at January 31, 2020 (in millions):

Options outstanding	27
Restricted stock awards and units and performance-based stock units outstanding	28
Stock available for future grant or issuance:	
2013 Equity Incentive Plan	74
2014 Inducement Plan	2
Acquired equity plans	1
Amended and Restated 2004 Employee Stock Purchase Plan	<u>1</u>
	<u>133</u>

Preferred Stock

The Company’s board of directors has the authority, without further action by stockholders, to issue up to 5,000,000 shares of preferred stock in one or more series. The Company’s board of directors may designate the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preference, sinking fund terms, and number of shares constituting any series or the designation of any series. The issuance of preferred stock could have the effect of restricting dividends on the Company’s common stock, diluting the voting power of its common stock, impairing the liquidation rights of its common stock, or delaying or preventing a change in control. As of January 31, 2020 and 2019, no shares of preferred stock were outstanding.

11. Income Taxes

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Domestic	\$686	\$839	\$160
Foreign	<u>20</u>	<u>144</u>	<u>260</u>
	<u>\$ 706</u>	<u>\$ 983</u>	<u>\$ 420</u>

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
Current:			
Federal	\$ 8	\$ 0	\$ (7)
State	33	39	2
Foreign	<u>512</u>	<u>117</u>	<u>85</u>
Total	553	156	80
Deferred:			
Federal	(41)	(248)	(2)
State	8	(37)	(14)
Foreign	<u>60</u>	<u>2</u>	<u>(4)</u>
Total	<u>27</u>	<u>(283)</u>	<u>(20)</u>
Provision for (benefit from) income taxes	<u>\$580</u>	<u>\$(127)</u>	<u>\$ 60</u>

In fiscal 2020, the Company recorded a tax provision primarily driven by incremental tax costs associated with the integration of acquired operations and assets and profitable jurisdictions outside of the United States. In fiscal 2019, the Company released a portion of its valuation allowance related to federal and state deferred tax assets, which was partially offset with the increase in unrecognized tax benefits. In addition, the Company recorded tax expense for profitable jurisdictions outside of the United States. In fiscal 2018, the Company recorded tax expense primarily from profitable jurisdictions outside of the United States.

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

	Fiscal Year Ended January 31,		
	2020	2019	2018
U.S. federal taxes at statutory rate (1)	\$ 148	\$ 206	\$ 142
State, net of the federal benefit	40	79	(21)
Effects of non-U.S. operations (2)	540	379	(35)
Tax credits	(195)	(132)	(107)
Non-deductible expenses	119	63	53
Excess tax benefits related to shared based compensation	(166)	(137)	(135)
Effect of U.S. tax law change	6	43	126
Change in valuation allowance	85	(612)	42
Other, net	<u>3</u>	<u>(16)</u>	<u>(5)</u>
Provision for (benefit from) income taxes	<u>\$ 580</u>	<u>\$(127)</u>	<u>\$ 60</u>

(1) The Company's statutory rates were 21.0 percent for fiscal 2020 and fiscal 2019, and 33.8 percent for fiscal 2018 which reflected the corporate tax rate reduction effective January 1, 2018 due to the Tax Act.

(2) Fiscal 2020 Effects of non-U.S. operations included incremental tax costs associated with the integration of acquired operations and assets.

Deferred Income Taxes

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

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

	As of January 31,	
	2020	2019
Deferred tax assets:		
Losses and deductions carryforward	\$ 218	\$ 173
Deferred stock-based expense	193	145
Tax credits	913	605
Deferred rent expense	0	71
Accrued liabilities	214	138
Lease liabilities	769	0
Financing obligation	9	102
Deferred revenue	4	0
Other	22	22
Total deferred tax assets	2,342	1,256
Less valuation allowance	(290)	(205)
Deferred tax assets, net of valuation allowance	2,052	1,051
Deferred tax liabilities:		
Deferred commissions	(449)	(347)
Purchased intangibles	(915)	(382)
Depreciation and amortization	(76)	(145)
Basis difference on strategic and other investments	(69)	(56)
Deferred revenue	0	(17)
Lease right-of-use assets	(695)	0
Total deferred tax liabilities	(2,204)	(947)
Net deferred tax assets (liabilities)	<u>\$ (152)</u>	<u>\$ 104</u>

At January 31, 2020, for federal income tax purposes, the Company had net operating loss carryforwards of approximately \$2.4 billion, which expire in fiscal 2021 through 2038 with the exception of post-2017 losses that do not expire, federal research and development tax credits of approximately \$626 million, which expire in fiscal 2021 through fiscal 2040, foreign tax credits of approximately \$141 million, which expire in fiscal 2021 through fiscal 2029. For California income tax purposes, the Company had net operating loss carryforwards of approximately \$781 million which expire beginning in fiscal 2021 through fiscal 2040, California research and development tax credits of approximately \$366 million, which do not expire. For other states' income tax purposes, the Company had net operating loss carryforwards of approximately \$1.2 billion, which expire beginning in fiscal 2021 through fiscal 2040 and tax credits of approximately \$56 million, which expire beginning in fiscal 2021 through fiscal 2040. Utilization of the Company's net operating loss carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

The Company had a valuation allowance of \$290 million and \$205 million as of January 31, 2020 and January 31, 2019 respectively. The Company regularly assesses the realizability of its deferred tax assets and establishes a valuation allowance if it is more-likely-than-not that some or all of its deferred tax assets will not be realized. The Company evaluates and weighs all available positive and negative evidence such as historic results, future reversals of existing deferred tax liabilities, projected future taxable income, as well as prudent and feasible tax-planning strategies. The assessment requires significant judgment and is performed in each of the applicable jurisdictions. The valuation allowance at the end of January 31, 2020 was primarily related to U.S. states' net operating loss and tax credits, and certain U.S. foreign tax credits. The Company will continue to evaluate the need for valuation allowances for its deferred tax assets.

Unrecognized Tax Benefits and Other Considerations

The Company records liabilities related to its uncertain tax positions. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company had gross unrecognized tax benefits of \$1.4 billion, \$852 million, and \$304 million as of January 31, 2020, 2019, and 2018 respectively.

A reconciliation of the beginning and ending balance of total unrecognized tax benefits for fiscal years 2020, 2019 and 2018 is as follows (in millions):

	Fiscal Year Ended January 31,		
	2020	2019	2018
Beginning of period	852	\$ 304	\$ 231
Tax positions taken in prior period:			
Gross increases	12	474	31
Gross decreases	(37)	(2)	(6)
Tax positions taken in current period:			
Gross increases	640	107	51
Settlements	(27)	(15)	(1)
Lapse of statute of limitations	(4)	(10)	(8)
Currency translation effect	(3)	(6)	6
End of period	<u>\$1,433</u>	<u>\$852</u>	<u>\$304</u>

In fiscal 2020, the Company reported a net increase of approximately \$581 million in its unrecognized tax benefits primarily for the incremental tax costs associated with the integration of the acquired operations and assets. In fiscal 2019, the Company reported an increase of approximately \$548 million in its recognized tax benefits primarily for tax issues related to the integrations of certain historical acquisitions as a result of recent developments of on-going audits and court cases. For fiscal 2020 and 2019, total unrecognized tax benefits in an amount of \$1.2 billion and \$631 million, respectively, if recognized, would have reduced income tax expense and the Company's effective tax rate. For fiscal 2018, total unrecognized tax benefits in an amount of \$77 million, if recognized, would have reduced income tax expense and the Company's effective tax rate after considering the impact of the change in valuation allowance in the U.S.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the income tax provision. The Company recorded an immaterial amount for penalties and interest for each of fiscal 2020, 2019 and 2018.

Certain prior year tax returns are currently being examined by various taxing authorities in countries including the United States, France, and Germany. In January 2020, the Company reached a settlement with the IRS Appeals primarily related to transfer pricing issues in earlier tax years, and income tax reserves were adjusted accordingly. The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. As the outcome of the tax audits cannot be predicted with certainty, if any issues addressed in the Company's tax audits are resolved in a manner inconsistent with management's expectations, the Company could adjust its provision for income taxes in the future.

The Company has operations and taxable presence in multiple jurisdictions in the U.S. and outside of the U.S. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions around the world. The Company currently considers U.S. federal, Japan, Australia, Germany, France, United Kingdom, and Israel to be major tax jurisdictions. The Company's U.S. federal tax returns since fiscal 2008 remain open to examination. With some exceptions, tax years prior to fiscal 2016 in jurisdictions

outside of U.S. are generally closed. However, in Japan and United Kingdom, the Company is no longer subject to examinations for years prior to fiscal 2015 and fiscal 2017, respectively.

The Company anticipates it is reasonably possible that a decrease of unrecognized tax benefits up to approximately \$18 million may occur in the next 12 months, as the applicable statutes of limitations lapse.

12. Earnings Per Share

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

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

	<u>Fiscal Year Ended January 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Numerator:			
Net income	\$126	\$1,110	\$360
Denominator:			
Weighted-average shares outstanding for basic earnings per share	829	751	715
Effect of dilutive securities:			
Convertible senior notes which matured in April			
2018	0	1	5
Employee stock awards	21	21	14
Warrants which settled in June and July 2018	0	2	1
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share	<u>850</u>	<u>775</u>	<u>735</u>

The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share for fiscal 2020 reflects the impact of approximately 102 million shares issued in relation to the acquisitions of Tableau and ClickSoftware in the third quarter fiscal 2020.

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

	<u>Fiscal Year Ended January 31,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employee stock awards	7	4	7

13. Leases and Other Commitments

Leases

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

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

	Fiscal Year Ended January 31, 2020
Operating lease cost	<u>\$913</u>
Finance lease cost:	
Amortization of right-of-use assets	\$ 65
Interest on lease liabilities	<u>20</u>
Total finance lease cost	<u>\$ 85</u>

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

	Fiscal Year Ended January 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows for operating leases	\$827
Operating cash outflows for finance leases	15
Financing cash outflows for finance leases	164
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	509

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

	As of January 31, 2020
Operating leases:	
Operating lease right-of-use assets	<u>\$3,040</u>
Operating lease liabilities, current	\$ 750
Noncurrent operating lease liabilities	<u>2,445</u>
Total operating lease liabilities	<u>\$ 3,195</u>
Finance leases:	
Buildings and building improvements	\$ 325
Computers, equipment and software	468
Accumulated depreciation	<u>(404)</u>
Property and equipment, net	<u>\$ 389</u>
Accrued expenses and other liabilities	\$ 53
Other noncurrent liabilities	<u>332</u>
Total finance lease liabilities	<u>\$ 385</u>

Other information related to leases was as follows:

	<u>As of January 31, 2020</u>
Weighted average remaining lease term	
Operating leases	7 years
Finance leases	18 years
Weighted average discount rate	
Operating leases	2.7%
Finance leases	4.5%

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

As of January 31, 2020, the maturities of lease liabilities under non-cancelable operating and finance leases are as follows (in millions):

	<u>Operating Leases</u>	<u>Finance Leases</u>
Fiscal Period:		
Fiscal 2021	\$ 819	\$ 67
Fiscal 2022	624	23
Fiscal 2023	448	23
Fiscal 2024	348	24
Fiscal 2025	285	24
Thereafter	<u>1,020</u>	<u>410</u>
Total minimum lease payments	3,544	571
Less: Imputed interest	<u>(349)</u>	<u>(186)</u>
Total	<u>\$3,195</u>	<u>\$ 385</u>

Operating lease amounts above do not include sublease income. The Company has entered into various sublease agreements with third parties. Under these agreements, the Company expects to receive sublease income of approximately \$169 million in the next five years and \$55 million thereafter.

The Company's lease terms may include options to extend or terminate the lease. These options are reflected in the Company's future contractual obligations when it is reasonably certain that the Company will exercise that option. The Company did not use hindsight when determining lease term, therefore, as of January 31, 2020, renewal options are only included for the Company's finance lease for 350 Mission.

As of January 31, 2020, the Company has additional operating leases that have not yet commenced totaling \$2.4 billion and therefore not reflected on the consolidated balance sheet and tables above. These operating leases include agreements for office facilities to be constructed. These operating leases will commence between fiscal year 2021 and fiscal year 2025 with lease terms of 1.5 to 18 years.

Of the total operating lease commitment balance, including leases not yet commenced, of \$5.9 billion, approximately \$5.4 billion is related to facilities space. The remaining commitment amount is primarily related to equipment.

As of January 31, 2019, prior to the adoption of Topic 842, future minimum lease payments under non-cancelable operating and capital leases was as follows (in millions):

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

- (1) As of January 31, 2019, the capital lease obligation is included in accrued expenses and other liabilities on the consolidated balance sheet.
- (2) Operating leases do not include sublease income. The Company has entered into various sublease agreements with third parties. Under these agreements, the Company expects to receive sublease income of approximately \$146 million in the next five years and \$79 million thereafter.
- (3) Total Financing Obligation—Leased Facility represents the total obligation on the Company’s lease agreement at 350 Mission including amounts allocated to interest and the implied lease for the land. As of January 31, 2019, \$215 million of the total \$279 million above was recorded to Financing obligation leased facility, of which the current portion is included in accrued expenses and other liabilities and the noncurrent portion is included in other noncurrent liabilities on the consolidated balance sheet. Upon adoption of ASC 842, the lease is accounted for as a finance lease.

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

Letters of Credit

As of January 31, 2020, the Company had a total of \$94 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through 2033.

14. Employee Benefit Plans

The Company has a 401(k) plan covering all eligible employees in the United States and a Registered Retirement Savings plan covering all eligible employees in Canada. Since January 1, 2006, the Company has been contributing to the plans. Total Company contributions during fiscal 2020, 2019 and 2018, were \$127 million, \$106 million and \$93 million, respectively.

15. Legal Proceedings and Claims

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

In December 2018, the Company was named as a nominal defendant and certain of its current and former directors were named as defendants in a purported shareholder derivative action in the Delaware Court of Chancery. The complaint alleged that excessive compensation was paid to such directors for their service, included claims of breach of fiduciary duty and unjust enrichment, and sought restitution and disgorgement of a portion of the directors' compensation. Subsequently, three similar shareholder derivative actions were filed in the Delaware Court of Chancery. The cases were consolidated under the caption *In re Salesforce.com, Inc. Derivative Litigation*. The parties agreed to settle the consolidated action, and the Delaware Court of Chancery approved the settlement in December 2019. No appeals were filed and the deadline to file an appeal has passed.

Tableau Litigation

In July and August 2017, two substantially similar securities class action complaints were filed against Tableau and two of its now former executive officers. The first complaint was filed in the U.S. District for the Southern District of New York (the "Scheufele Action"). The second complaint was filed in the U.S. District Court for the Western District of Washington and was voluntarily dismissed on October 17, 2017. In December 2017, the lead plaintiff in the Scheufele Action filed an amended complaint, which alleged that between February 5, 2015 and February 4, 2016, Tableau and certain of its executive officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, in connection with statements regarding Tableau's business and operations by allegedly failing to disclose that product launches and software upgrades by competitors were negatively impacting Tableau's competitive position and profitability. The amended complaint sought unspecified damages, interest, attorneys' fees and other costs. In February 2018, the lead plaintiff filed a second amended complaint (the "SAC"), which contains substantially similar allegations as the amended complaint, and added as defendants two of Tableau's now former executive officers and directors. Defendants filed a motion to dismiss the SAC in March 2018, which was denied in February 2019. Defendants filed an answer to the SAC in March 2019, and subsequently amended their answer in April 2019. On January 15, 2020, the court granted lead plaintiff's motion for certification. The parties have completed fact discovery and engaged in expert discovery. The court has not yet set a trial date.

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

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

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

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

materially affect the Company's current or future results of operations or cash flows, or both, in a particular quarter.

16. Related-Party Transactions

In January 1999, the Foundation was chartered on an idea of leveraging the Company's people, technology and resources to help improve communities around the world. The Company calls this integrated philanthropic approach the 1-1-1 model. Beginning in 2008, Salesforce.org, which was a non-profit public benefit corporation, was established to resell the Company's services to non-profit organizations and certain higher education organizations. As discussed in Note 7, in June 2019, the Company completed a business combination with Salesforce.org.

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

Since the Foundation's and Salesforce.org's inception, and prior to the closing of the business combination with Salesforce.org, the Company provided at no charge certain resources to those entities' employees such as office space, furniture, equipment, facilities, services and other resources. The value of these items was approximately \$6 million in fiscal 2020, prior to the business combination. The value of these items was approximately \$15 million and \$11 million for fiscal 2019 and 2018, respectively.

Additionally, the Company allowed Salesforce.org to donate subscriptions of the Company's services to other qualified non-profit organizations. Prior to the closing of the business combination with Salesforce.org, the value of the subscriptions sold by Salesforce.org to external customers pursuant to the reseller agreement, as amended, was approximately \$110 million for fiscal 2020, prior to the business combination. The value of the subscriptions sold by Salesforce.org pursuant to the reseller agreement, as amended, was approximately \$253 million and \$183 million for fiscal 2019 and 2018, respectively.

As discussed in Note 7 "Business Combinations", in June 2019, the Company reorganized its relationship with Salesforce.org, which was accounted for as a business combination. This transaction did not change the relationship and accounting considerations with the Foundation, as described above.

17. Subsequent Events

In February 2020, the Company entered into an agreement to acquire Vlocity, Inc ("Vlocity"), a leading provider of industry-specific cloud and mobile software. Under the terms of the agreement, the Company will acquire Vlocity for an amount expected to be approximately \$1.33 billion, net of the value of shares currently owned by the Company, subject to customary purchase price adjustments. The purchase price will be paid predominantly in cash but also includes the assumption of outstanding equity awards held by Vlocity employees. The acquisition is expected to close in the second quarter fiscal 2021, subject to customary closing conditions, including the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act.

In February 2020, the Company acquired all outstanding stock of a cloud-based real-time personalization and customer data platform. Beginning with the fiscal quarter ended April 30, 2020, the Company will include the financial results of the acquired company in its consolidated financial statements from the date of the acquisition. The total estimated consideration paid was approximately \$100 million. The purchase price was paid predominantly in cash but also included the assumption of outstanding equity awards held by the acquired company's employees.

In February 2020, the Company made a strategic investment of \$150 million in cash for preferred shares of a technology company in a preferred stock financing.

In February 2020, the Company announced that Keith Block resigned as co-CEO and as a director of the Company. The Company entered into an agreement (the “Transition Agreement”) with Mr. Block setting forth the terms of Mr. Block’s transition from the Company, whereby he will continue to serve as Advisor to the Chief Executive Officer through February 25, 2021, subject to early termination by the Company for cause, as defined in the Transition Agreement, by Mr. Block for any reason upon ten days’ written notice, or automatic termination upon Mr. Block’s acceptance of employment or other full-time services with a third party.

18. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for fiscal 2020 and 2019 is as follows:

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Fiscal Year</u>
	(in millions, except per share data)				
Fiscal 2020					
Revenues	\$3,737	\$3,997	\$4,513	\$4,851	\$17,098
Gross profit	2,823	3,030	3,379	3,631	12,863
Income (loss) from operations	210	58	65	(36)	297
Net income (loss)	\$ 392	\$ 91	\$ (109)	\$ (248)	\$ 126
Basic net income (loss) per share	\$ 0.51	\$ 0.12	\$ (0.12)	\$ (0.28)	\$ 0.15
Diluted net income (loss) per share	\$ 0.49	\$ 0.11	\$ (0.12)	\$ (0.28)	\$ 0.15
Fiscal 2019					
Revenues	\$3,006	\$3,281	\$3,392	\$3,603	\$13,282
Gross profit	2,239	2,432	2,503	2,657	9,831
Income from operations	191	115	92	137	535
Net income	\$ 344	\$ 299	\$ 105	\$ 362	\$ 1,110
Basic net income per share	\$ 0.47	\$ 0.40	\$ 0.14	\$ 0.47	\$ 1.48
Diluted net income per share	\$ 0.46	\$ 0.39	\$ 0.13	\$ 0.46	\$ 1.43

The Company’s loss from operations in the fourth quarter fiscal 2020 was impacted by the timing of its annual marketing event Dreamforce, which occurred in November 2019 as compared to the third quarter fiscal 2019, as well as the timing of integration and other investments in Tableau. The Company’s fourth quarter fiscal 2020 tax provision included incremental tax costs associated with the integration of acquired operations and assets.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

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

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

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2020 based on the guidelines established in the *Internal Control—Integrated Framework* (2013 framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

In accordance with guidance issued by the Securities and Exchange Commission, companies are permitted to exclude acquisitions from their final assessment of internal control over financial reporting for the first fiscal year in which the acquisition occurred. Our management’s evaluation of internal control over financial reporting excluded the internal control activities of Tableau Software, Inc. (“Tableau”), which we acquired in August 2019, ClickSoftware Technologies, Ltd. (“ClickSoftware”) which we acquired in October 2019 and Salesforce.org, which we acquired in June 2019, as discussed in Note 7, “Business Combinations,” of the Notes to the Consolidated Financial Statements. We have included the financial results of these in the consolidated financial statements from the date of acquisition. Total revenues and net income subject to Tableau’s, ClickSoftware’s and Salesforce.org’s internal control over financial reporting represented approximately six percent and twenty three percent of our consolidated total revenues and net income for the fiscal year ended January 31, 2020, respectively. Total assets and net assets subject to Tableau’s, ClickSoftware’s and Salesforce.org’s internal control over financial reporting represented approximately three percent and one percent of our consolidated total assets and net assets, excluding acquisition method fair value adjustments, as of January 31, 2020, respectively.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2020. We reviewed the results of management's assessment with our Audit Committee.

The effectiveness of our internal control over financial reporting as of January 31, 2020 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended January 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

(d) Inherent Limitations on Effectiveness of Controls

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

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning our directors, our Audit Committee and any changes to the process by which stockholders may recommend nominees to the Board required by this Item are incorporated herein by reference to information contained in the Proxy Statement, including “Directors and Corporate Governance” and, as applicable, “Delinquent Section 16(a) Reports.”

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

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

3. *Exhibits*: See “Index to Exhibits.”

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

(c) *Financial Statement Schedules*.

salesforce.com, inc.

**Schedule II Valuation and Qualifying Accounts
(in millions)**

Description	Balance at beginning of year	Additions	Deductions write-offs	Balance at end of year
Fiscal year ended January 31, 2020				
Allowance for doubtful accounts	\$22	\$25	\$(24)	\$23
Fiscal year ended January 31, 2019				
Allowance for doubtful accounts	\$21	\$19	\$(18)	\$22
Fiscal year ended January 31, 2018				
Allowance for doubtful accounts	\$12	\$31	\$(22)	\$21

ITEM 16. 10-K SUMMARY

Omitted at registrant's option.

Index to Exhibits

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp. and MuleSoft, Inc.		8-K	001-32224	2.1	3/21/2018
2.2	Agreement and Plan of Merger, dated as of June 9, 2019, by and among salesforce.com, inc., Sausalito Acquisition Corp. and Tableau Software, Inc.		8-K	001-32224	2.1	6/10/2019
3.1	Amended and Restated Certificate of Incorporation of salesforce.com, inc.		8-K	001-32224	3.1	6/7/2019
3.2	Amended and Restated Bylaws of salesforce.com, inc.		8-K	001-32224	3.2	6/7/2019
4.1	Specimen Common Stock Certificate		S-1/A	333-111289	4.2	4/20/2004
4.2	Indenture, dated April 11, 2018, between the Company and U.S. Bank National Association, as trustee		8-K	001-32224	4.1	4/11/2018
4.3	First Supplemental Indenture, dated April 11, 2018, between the Company and U.S. Bank National Association, as trustee		8-K	001-32224	4.2	4/11/2018
4.4	Form of 2023 Notes		8-K	001-32224	4.2	4/11/2018
4.5	Form of 2028 Notes		8-K	001-32224	4.2	4/11/2018
4.6	Description of Common Stock	X				
10.1*	Form of Indemnification Agreement between salesforce.com, inc. and its officers and directors		S-1/A	333-111289	10.1	4/20/2004
10.2*	Amended and Restated 2013 Equity Incentive Plan		8-K	001-32224	10.1	6/7/2019
10.3*	Amended and Restated 2004 Employee Stock Purchase Plan		8-K	001-32224	10.2	6/7/2017
10.4*	MetaMind, Inc. 2014 Stock Incentive Plan		S-8	333-211510	4.1	5/20/2016
10.5*	2014 Inducement Equity Incentive Plan, as amended		S-8	333-213685	4.3	6/7/2019
10.6*	Related forms of equity agreements under the Amended and Restated 2014 Inducement Equity Incentive Plan	X				
10.7*	Related forms of equity agreements under the Amended and Restated 2013 Equity Incentive Plan	X				
10.8*	Related forms of equity agreements under the Amended and Restated 2004 Employee Stock Purchase Plan	X				

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.9*	Optimizer TopCo S.A.R.L. 2015 Share Incentive Plan.		S-8	333-234072	4.3	10/3/2019
10.10*	Gratitude Bonus Plan, as amended and restated August 21, 2019, effective August 21, 2019		10-Q	001-32224	10.4	8/23/2019
10.11*	Form of Offer Letter for Executive Officers and schedule of omitted details thereto		10-K	001-32224	10.11	3/9/2012
10.12*	Employment Offer Letter, dated May 2, 2013 between salesforce.com, inc. and Keith Block		8-K	001-32224	10.1	6/11/2013
10.13*	Employment Offer Letter, dated June 11, 2014, between salesforce.com, inc. and Mark Hawkins		8-K	001-32224	10.1	6/30/2014
10.14*	Form of Change of Control and Retention Agreement as entered into with Marc Benioff		10-K	001-32224	10.13	3/9/2009
10.15*	Form of Change of Control and Retention Agreement as entered into on or prior to 2014 with Parker Harris, Keith Block, Mark Hawkins, Alex Dayon and Joe Allanson		10-K	001-32224	10.14	3/9/2009
10.16*	Form of Change of Control and Retention Agreement entered into with non-CEO Executive Officers after 2014	X				
10.17*	Salesforce Tableau Equity Incentive Plan		S-8 POS	333-232530	4.4	8/1/2019
10.18*	Founder Restricted Stock Agreement	X				
10.19*	Non-Employee Director Compensation Program and related form of Director RSU Agreement	X				
10.20	Office Lease dated as of April 10, 2014 by and between salesforce.com, inc. and Transbay Tower LLC		10-Q	001-32224	10.2	5/30/2014
10.21	Purchase and Sale Agreement, dated November 10, 2014, between salesforce.com, inc. and 50 Fremont Tower, LLC		10-Q	001-32224	10.2	11/26/2014
10.22	Amended and Restated Credit Agreement, dated as of July 7, 2016, by and among salesforce.com, inc., the subsidiaries of the Company party thereto as guarantors, the lenders from time to time thereto and Wells Fargo Bank, N.A., as Administrative Agent		8-K	001-32224	10.2	7/11/2016

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.23	Tender and Support Agreement, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp. and Lightspeed Venture Partners Select, L.P., Lightspeed Venture Partners VII, L.P., New Enterprise Associates 15, L.P., New Enterprise Associates 14, L.P., NEA 15 Opportunities Fund, L.P. and NEA Ventures 2013, L.P.		8-K	001-32224	10.1	3/21/2018
10.24	Tender and Support Agreement, dated as of March 20, 2018, by and among salesforce.com, inc., Malbec Acquisition Corp., Matthew Langdon, Ann Winbald, Gregory Schott, Little Family 1995 TR, Ravi Mhatre, Mhatre Investments LP-Fund 4, Simon Parmett, Robert Horton and Ross Mason.		8-K	001-32224	10.2	3/21/2018
10.25	Second Amended and Restated Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and an Issuing Lender.		8-K	001-32224	10.1	4/30/2018
10.26	Amended and Restated Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Bank of America, N.A., as Administrative Agent.		8-K	001-32224	10.2	4/30/2018
10.27	Credit Agreement, dated as of April 30, 2018, among the Company, the lenders and other parties party thereto, and Bank of America, N.A., as Administrative Agent.		8-K	001-32224	10.3	4/30/2018
10.28	Settlement Agreement between salesforce.com, inc. and BNP Paribas, dated June 12, 2018		8-K	001-32224	10.1	6/15/2018
10.29	Settlement Agreement between salesforce.com, inc. and Bank of America, N.A., dated June 12, 2018		8-K	001-32224	10.2	6/15/2018
10.30	Settlement Agreement between salesforce.com, inc. and Morgan Stanley & Co. International plc, dated June 12, 2018		8-K	001-32224	10.3	6/15/2018

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
10.31*	Letter Agreement, dated as of June 9, 2019, by and among salesforce.com, inc., Sausalito Acquisition Corp. and Christian Chabot, Patrick Hanrahan and Christopher Stolte.		8-K	001-32224	10.1	6/10/2019
21.1	List of Subsidiaries	X				
23.1	Consent of Independent Registered Public Accounting Firm	X				
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)	X				
31.1	Certification of Chief Executive Officer, Marc Benioff, pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Extension Definition					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104	The cover page from the Company's Annual Report on Form 10-K for the year ended January 31, 2020, formatted in Inline XBRL (included in Exhibit 101).					

* Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

Dated: March 5, 2020

salesforce.com, inc.

By: /S/ MARK J. HAWKINS

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

Dated: March 5, 2020

salesforce.com, inc.

By: /S/ JOE ALLANSON

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

POWER OF ATTORNEY AND SIGNATURES

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

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ Marc Benioff Marc Benioff	Chair of the Board and Chief Executive Officer (Principal Executive Officer)	March 5, 2020
/s/ Mark J. Hawkins Mark J. Hawkins	President and Chief Financial Officer (Principal Financial Officer)	March 5, 2020
/s/ Joe Allanson Joe Allanson	Executive Vice President, Chief Accounting Officer and Corporate Controller (Principal Accounting Officer)	March 5, 2020
/s/ Craig Conway Craig Conway	Director	March 5, 2020
/s/ Parker Harris Parker Harris	Director, Co-Founder and Chief Technology Officer	March 5, 2020
/s/ Alan Hassenfeld Alan Hassenfeld	Director	March 5, 2020
/s/ Neelie Kroes Neelie Kroes	Director	March 5, 2020
/s/ Colin Powell Colin Powell	Director	March 5, 2020
/s/ Sanford R. Robertson Sanford R. Robertson	Director	March 5, 2020
/s/ John V. Roos John V. Roos	Director	March 5, 2020
/s/ Robin Washington Robin Washington	Director	March 5, 2020

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/s/ Maynard Webb</u> Maynard Webb	Director	March 5, 2020
<hr/> <u>/s/ Susan Wojcicki</u> Susan Wojcicki	Director	March 5, 2020

[THIS PAGE INTENTIONALLY LEFT BLANK]

SALESFORCE FORM 10-K

[THIS PAGE INTENTIONALLY LEFT BLANK]

SALESFORCE FORM 10-K

[THIS PAGE INTENTIONALLY LEFT BLANK]

SALESFORCE FORM 10-K

[THIS PAGE INTENTIONALLY LEFT BLANK]

SALESFORCE FORM 10-K

BOARD OF DIRECTORS

Marc Benioff	Chair of the Board of Directors & Chief Executive Officer
Craig Conway	Former Chief Executive Officer, PeopleSoft, Inc.
Parker Harris	Co-Founder & Chief Technology Officer
Alan Hassenfeld	Director, Hasbro, Inc.
Neelie Kroes	Former Vice President of the European Commission
Colin Powell	General; Former U.S. Secretary of State; Former Chairman, Joint Chiefs of Staff
Sanford Robertson	Principal, Francisco Partners
John V. Roos	Former U.S. Ambassador to Japan; Co-Founder, Geodesic Capital; Director, Sony Corporation
Robin Washington	Former Executive Vice President & Chief Financial Officer, Gilead Sciences, Inc.; Director, Alphabet, Inc.
Maynard Webb	Founder, Webb Investment Network; Co-Founder, Everwise; Director, Visa, Inc.
Susan Wojcicki	Chief Executive Officer, YouTube, Inc.

EXECUTIVE TEAM

Marc Benioff	Chair of the Board of Directors & Chief Executive Officer
Joe Allanson	Chief Accounting Officer & Corporate Controller
Alexandre Dayon	President & Chief Strategy Officer
Parker Harris	Co-Founder & Chief Technology Officer
Mark Hawkins	President & Chief Financial Officer
Brent Hyder	President & Chief People Officer
Srinivas Tallapragada	President & Chief Engineering Officer
Bret Taylor	President & Chief Operating Officer
Amy Weaver	President, Chief Legal Officer & Secretary

Investor Relations investor@salesforce.com, +1-415-536-6250

Stock Listing Salesforce trades on the New York Stock Exchange under the ticker symbol "CRM."

Note on Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. Actual results could differ materially from those expressed in such statements. Further information on factors that could affect results is included in the fiscal 2020 Form 10-K, included in this annual report.



WORLDWIDE CORPORATE HEADQUARTERS

[salesforce.com](https://www.salesforce.com), inc.

Salesforce Tower

415 Mission Street, 3rd Floor

San Francisco, CA 94105, USA

1-800-NO-SOFTWARE



www.salesforce.com | [f/salesforce](https://www.facebook.com/salesforce) | [@salesforce](https://twitter.com/salesforce)

© 2020 salesforce.com, inc. All rights reserved. Salesforce and salesforce.com are registered trademarks of salesforce.com, inc. Salesforce owns other registered and unregistered trademarks. Other names used herein may be trademarks of their respective owners.