

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 31, 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

Name of each exchange on which registered
New York Stock Exchange

Title of each class
Common Stock, par value \$0.001 per share

Trading Symbol(s)
CRM

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of December 1, 2020, there were approximately 915 million shares of the Registrant's Common Stock outstanding.

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ITEM 1. FINANCIAL STATEMENTS

PART I.

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

	October 31, 2020	January 31, 2020
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,724	\$ 4,145
Marketable securities	5,768	3,802
Accounts receivable, net	3,316	6,174
Costs capitalized to obtain revenue contracts, net	1,017	926
Prepaid expenses and other current assets	1,121	916
Total current assets	14,946	15,963
Property and equipment, net	2,564	2,375
Operating lease right-of-use assets, net	2,962	3,040
Noncurrent costs capitalized to obtain revenue contracts, net	1,462	1,348
Strategic investments	3,927	1,963
Goodwill	26,313	25,134
Intangible assets acquired through business combinations, net	4,398	4,724
Deferred tax assets and other assets, net	2,564	579
Total assets	\$ 59,136	\$ 55,126
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 3,546	\$ 3,433
Operating lease liabilities, current	765	750
Unearned revenue	7,923	10,662
Total current liabilities	12,234	14,845
Noncurrent debt	2,672	2,673
Noncurrent operating lease liabilities	2,403	2,445
Other noncurrent liabilities	1,517	1,278
Total liabilities	18,826	21,241
Stockholders' equity:		
Common stock	1	1
Additional paid-in capital	34,727	32,116
Accumulated other comprehensive loss	(84)	(93)
Retained earnings	5,666	1,861
Total stockholders' equity	40,310	33,885
Total liabilities and stockholders' equity	\$ 59,136	\$ 55,126

See accompanying Notes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Revenues:				
Subscription and support	\$ 5,085	\$ 4,239	\$ 14,500	\$ 11,480
Professional services and other	334	274	935	767
Total revenues	5,419	4,513	15,435	12,247
Cost of revenues (1)(2):				
Subscription and support	1,060	870	3,039	2,275
Professional services and other	334	264	920	740
Total cost of revenues	1,394	1,134	3,959	3,015
Gross profit	4,025	3,379	11,476	9,232
Operating expenses (1)(2):				
Research and development	902	774	2,659	1,935
Marketing and sales	2,377	2,063	7,042	5,584
General and administrative	522	477	1,513	1,214
Loss on settlement of Salesforce.org reseller agreement	0	0	0	166
Total operating expenses	3,801	3,314	11,214	8,899
Income from operations	224	65	262	333
Gains on strategic investments, net (3)	1,036	6	1,910	396
Other expense	(10)	(7)	(36)	(19)
Income before benefit from (provision for) income taxes	1,250	64	2,136	710
Benefit from (provision for) income taxes (4)	(169)	(173)	1,669	(336)
Net income (loss)	\$ 1,081	\$ (109)	\$ 3,805	\$ 374
Basic net income (loss) per share	\$ 1.19	\$ (0.12)	\$ 4.20	\$ 0.46
Diluted net income (loss) per share	\$ 1.15	\$ (0.12)	\$ 4.11	\$ 0.45
Shares used in computing basic net income (loss) per share	911	879	905	809
Shares used in computing diluted net income (loss) per share	939	879	926	829

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Cost of revenues	\$ 169	\$ 157	\$ 494	\$ 280
Marketing and sales	114	109	344	242

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Cost of revenues	\$ 65	\$ 54	\$ 180	\$ 143
Research and development	181	169	531	348
Marketing and sales	242	249	718	625
General and administrative	78	71	219	158

(3) In September 2020, one of the Company's strategic investments completed its initial public offering, resulting in an unrealized gain of \$1.1 billion during the three and nine months ended October 31, 2020.

(4) In the second quarter of fiscal 2021, the Company recorded approximately \$2.0 billion of benefit from income taxes due to a one-time discrete tax item from the recognition of deferred tax assets related to an intra-entity transfer of intangible property.

See accompanying Notes.

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

	<u>Three Months Ended October 31,</u>		<u>Nine Months Ended October 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net income (loss)	\$ 1,081	\$ (109)	\$ 3,805	\$ 374
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation and other losses	(6)	(1)	(1)	(31)
Unrealized gains (losses) on marketable securities and privately held debt securities	(11)	4	13	18
Other comprehensive income (loss), before tax	(17)	3	12	(13)
Tax effect	1	0	(3)	(3)
Other comprehensive income (loss), net	(16)	3	9	(16)
Comprehensive income (loss)	<u>\$ 1,065</u>	<u>\$ (106)</u>	<u>\$ 3,814</u>	<u>\$ 358</u>

See accompanying Notes.

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

Three and Nine Months Ended October 31, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2020	893	\$ 1	\$ 32,116	\$ (93)	\$ 1,861	\$ 33,885
Common stock issued	6	0	119	0	0	119
Stock-based expenses	0	0	504	0	0	504
Other comprehensive loss, net of tax	0	0	0	(42)	0	(42)
Net income	0	0	0	0	99	99
Balance at April 30, 2020	899	1	32,739	(135)	1,960	34,565
Common stock issued	9	0	605	0	0	605
Stock-based expenses	0	0	578	0	0	578
Other comprehensive income, net of tax	0	0	0	67	0	67
Net income	0	0	0	0	2,625	2,625
Balance at July 31, 2020	908	1	33,922	(68)	4,585	38,440
Common stock issued	6	0	239	0	0	239
Stock-based expenses	0	0	566	0	0	566
Other comprehensive loss, net of tax	0	0	0	(16)	0	(16)
Net income	0	0	0	0	1,081	1,081
Balance at October 31, 2020	914	\$ 1	\$ 34,727	\$ (84)	\$ 5,666	\$ 40,310

Three and Nine Months Ended October 31, 2019

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

See accompanying Notes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Operating activities:				
Net income (loss)	\$ 1,081	\$ (109)	\$ 3,805	\$ 374
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	670	608	1,977	1,502
Amortization of costs capitalized to obtain revenue contracts, net	271	221	768	647
Expenses related to employee stock plans	566	543	1,648	1,274
Loss on settlement of Salesforce.org reseller agreement	0	0	0	166
Gains on strategic investments, net	(1,036)	(6)	(1,910)	(396)
Tax benefit from intra-entity transfer of intangible property	0	0	(2,003)	0
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	128	(29)	2,873	2,599
Costs capitalized to obtain revenue contracts, net	(493)	(246)	(973)	(543)
Prepaid expenses and other current assets and other assets	80	(183)	(134)	(252)
Accounts payable and accrued expenses and other liabilities	68	265	4	13
Operating lease liabilities	(204)	(200)	(616)	(546)
Unearned revenue	(792)	(566)	(2,812)	(2,139)
Net cash provided by operating activities	<u>339</u>	<u>298</u>	<u>2,627</u>	<u>2,699</u>
Investing activities:				
Business combinations, net of cash acquired	(24)	94	(1,281)	(339)
Purchases of strategic investments	(368)	(346)	(942)	(567)
Sales of strategic investments	33	138	685	403
Purchases of marketable securities	(1,453)	(438)	(3,968)	(1,944)
Sales of marketable securities	662	427	1,206	888
Maturities of marketable securities	239	358	796	551
Capital expenditures	(124)	(170)	(561)	(507)
Net cash provided by (used in) investing activities	<u>(1,035)</u>	<u>63</u>	<u>(4,065)</u>	<u>(1,515)</u>
Financing activities:				
Proceeds from employee stock plans	381	179	1,105	550
Principal payments on financing obligations	(12)	(14)	(84)	(159)
Repayments of debt	(1)	(150)	(3)	(352)
Net cash provided by financing activities	<u>368</u>	<u>15</u>	<u>1,018</u>	<u>39</u>
Effect of exchange rate changes	<u>0</u>	<u>(18)</u>	<u>(1)</u>	<u>(24)</u>
Net increase (decrease) in cash and cash equivalents	<u>(328)</u>	<u>358</u>	<u>(421)</u>	<u>1,199</u>
Cash and cash equivalents, beginning of period	<u>4,052</u>	<u>3,510</u>	<u>4,145</u>	<u>2,669</u>
Cash and cash equivalents, end of period	<u>\$ 3,724</u>	<u>\$ 3,868</u>	<u>\$ 3,724</u>	<u>\$ 3,868</u>

See accompanying Notes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	\$ 46	\$ 48	\$ 94	\$ 104
Income taxes, net of tax refunds	\$ 56	\$ 38	\$ 180	\$ 93
Non-cash investing and financing activities:				
Fair value of equity awards assumed	\$ 0	\$ 373	\$ 6	\$ 373
Fair value of common stock issued as consideration for business combinations	\$ 0	\$ 15,215	\$ 0	\$ 15,215

See accompanying Notes.

salesforce.com, inc.

Notes to Condensed Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

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

The Company's core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, 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 2021, for example, refer to the fiscal year ending January 31, 2021.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of October 31, 2020 and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive income (loss), condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flows for the three and nine months ended October 31, 2020 and 2019 are unaudited.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the unaudited condensed consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s balance sheet as of October 31, 2020, and its results of operations, including its comprehensive income (loss), stockholders' equity and its cash flows for the three and nine months ended October 31, 2020 and 2019. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2020 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2021.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2020, filed with the Securities and Exchange Commission (the “SEC”) on March 5, 2020.

Use of Estimates

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

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

- the fair value of assets acquired and liabilities assumed for business combinations;
- the standalone selling price (“SSP”) of performance obligations for revenue contracts with multiple performance obligations;
- the valuation of privately-held strategic investments, including impairments;
- 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.

In December 2019, the novel coronavirus and resulting disease (“COVID-19”) was reported and in March 2020 the World Health Organization declared it a pandemic. The extent of the impact of the COVID-19 pandemic on the Company’s operational and financial performance depends on certain developments, including the duration of the pandemic, impact on the

Company's customers and its sales and renewal cycles, and impact on the Company's employees, as discussed in more detail in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations". These estimates may change, as new events occur and additional information is obtained, and such changes will be recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from these estimates and any such differences may be material to the Company's financial statements.

Principles of Consolidation

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

Segments

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

While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, and operates in multiple countries, the Company's business operates in one operating segment because most of the Company's offerings operate on its single Customer 360 Platform and most of the Company's products are deployed in a nearly identical way, and the Company's CODM evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

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 due to estimated credit losses. This allowance is based upon historical loss patterns, the number of days that billings are past due, an evaluation of the potential risk of loss associated with delinquent accounts and current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss patterns. The Company records the allowance against bad debt expense through the condensed consolidated statement of operations up to the amount of revenues recognized to date. Any incremental allowance is recorded as an offset to unearned revenue on the condensed consolidated balance sheet. Receivables are written-off and charged against the recorded allowance when the Company has exhausted collection efforts without success.

No single customer accounted for more than five percent of accounts receivable at October 31, 2020 and January 31, 2020. No single customer accounted for five percent or more of total revenue during the nine months ended October 31, 2020 and 2019. As of October 31, 2020 and January 31, 2020, assets located outside the Americas were 13 percent and 12 percent of total assets, respectively. As of October 31, 2020 and January 31, 2020, assets located in the United States were 85 percent and 87 percent of total assets, respectively.

The Company is also exposed to concentrations of risk in its strategic investment portfolio. As of October 31, 2020, the Company held one publicly traded investment with a carrying value that was individually greater than 35 percent of its total strategic investments, one publicly traded investment with a carrying value that was individually approximately 20 percent of its total strategic investments and one privately held investment individually greater than five percent of its total strategic investments. As of January 31, 2020, the Company held five investments that were individually greater than five percent of its total strategic investments, of which one was publicly traded and four were privately held. The publicly traded investments held as of October 31, 2020 are different than the publicly traded investment that was held as of January 31, 2020.

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, the allocated 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 distinct.

The Company allocates the transaction price to each performance obligation on a relative 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 non-cancelable Cloud Services subscription, ongoing Cloud Services support and license support revenue contracts. For contracts with on-premises software licenses where revenue is recognized upfront when the software is made available to the customer, costs allocable to those licenses are expensed as they are incurred. 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 (4) to a lesser extent, success fees paid to partners in emerging markets where the Company has a limited presence.

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

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

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

During the nine months ended October 31, 2020, the Company capitalized \$973 million of costs to obtain revenue contracts and amortized \$768 million to marketing and sales expense. During the same period a year ago, the Company capitalized \$543 million of costs to obtain revenue contracts and amortized \$647 million to marketing and sales expense. During the three months ended April 30, 2020, the Company offered its direct sales force a partial minimum commission guarantee that would pay the greater of actual commissions earned or a fixed amount of their variable compensation that would have been otherwise paid during the three months ended April 30, 2020 if incremental new business was not impacted by the COVID-19 pandemic. As these payments were guaranteed, and not a cost to obtain a revenue contract, the amounts were immediately expensed and are reflected in the Company's condensed consolidated statement of operations for the nine months ended October 31, 2020. Costs capitalized to obtain a revenue contract, net on the Company's condensed consolidated balance sheets totaled \$2.5 billion as of October 31, 2020 and \$2.3 billion as of January 31, 2020. There were no impairments of costs to obtain revenue contracts for the three and nine months ended October 31, 2020 and 2019, respectively.

Cash and Cash Equivalents

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

Marketable Securities

The Company considers all of its marketable debt securities as available for use in current operations, including those with maturity dates beyond one year, and therefore classifies these securities within current assets on the condensed consolidated balance sheets. Securities are classified as available for sale and are carried at fair value, with the change in unrealized gains and losses, net of tax, reported as a separate component on the condensed consolidated statements of comprehensive income until realized. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable, such as quoted prices, interest rates and yield curves. Securities with an amortized cost basis in excess of estimated fair value are assessed to determine what amount of the excess, if any, is caused by expected credit losses, as required by new accounting pronouncement, Accounting Standards Update No. 2016-13 ("ASU 2016-13"), discussed in further detail below. Expected credit losses on securities are recognized in other income (expense), net on the condensed consolidated statements of operations, and any remaining unrealized losses, net of taxes, are included in accumulated other comprehensive loss in stockholders' equity. 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.

Privately held equity securities which the Company does not have a controlling financial interest in but does exercise significant influence over the investee are accounted for under the equity method. Privately held equity securities not accounted for under the equity method 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 condensed consolidated statement of operations. Privately held debt securities are recorded at fair value with changes in fair value recorded through accumulated other comprehensive income on the condensed consolidated balance sheet.

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

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

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. Outstanding foreign currency derivative contracts are recorded at fair value on the condensed consolidated balance sheets.

Foreign currency derivative contracts are marked-to-market at the end of each reporting period with gains and losses recognized as other 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
Buildings and building improvements	10 to 40 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 intangible assets, long-lived assets or goodwill during the nine months ended October 31, 2020 and 2019, 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, tax-related valuation allowances and pre-acquisition contingencies are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's condensed consolidated statement of operations.

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

Leases

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

ROU assets represent the Company’s right to use an underlying asset for the lease term and the corresponding lease liabilities represent its obligation to make lease payments arising from the lease. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease ROU asset is reduced for tenant incentives. As the Company’s leases typically 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 an estimate of the interest rate the Company would have to pay to borrow 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 which contain both 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 any 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. Similar to other long-lived assets, management tests ROU assets for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. For leased assets, such circumstances would include subleases which do not fully recover the costs of the associated lease.

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 from the lower of the Company’s stock price on (i) the first day of the offering period or on (ii) the last day of the purchase period 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 and other members of senior management, are measured based on grant date at fair value using a Monte Carlo simulation model and expensed on a straight-line basis, net of estimated forfeitures, over the service period of the awards, which is generally the vesting term of three years.

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

Income Taxes

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

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

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

Foreign Currency Translation

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

Warranties and Indemnification

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

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

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

New Accounting Pronouncement Adopted in Fiscal 2021

ASU 2016-13

In June 2016, the Financial Accounting Standards Board (FASB) issued 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, and includes the Company's accounts receivable, certain financial instruments and contract assets. ASU 2016-13 replaces the prior incurred loss impairment model with an expected loss methodology, which results in more timely recognition of credit losses. Effective on February 1, 2020, the Company adopted the provisions and expanded disclosure requirements described in ASU 2016-13. The adoption of ASU 2016-13 was not material to the consolidated financial statements.

Accounting Pronouncement Pending Adoption

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes," 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. ASU 2019-12 will be effective for fiscal 2022, including interim periods within that reporting period. The Company does not expect the adoption of ASU 2019-12 to be material.

2. Revenues

Disaggregation of Revenue

Subscription and Support Revenue by the Company's service offerings

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Sales	\$ 1,311	\$ 1,168	\$ 3,835	\$ 3,371
Service	1,376	1,140	3,931	3,247
Platform and Other	1,594	1,287	4,470	3,041
Marketing and Commerce	804	644	2,264	1,821
	<u>\$ 5,085</u>	<u>\$ 4,239</u>	<u>\$ 14,500</u>	<u>\$ 11,480</u>

Total Revenue by Geographic Locations

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Americas	\$ 3,758	\$ 3,216	\$ 10,724	\$ 8,649
Europe	1,149	880	3,253	2,421
Asia Pacific	512	417	1,458	1,177
	<u>\$ 5,419</u>	<u>\$ 4,513</u>	<u>\$ 15,435</u>	<u>\$ 12,247</u>

Revenues by geography are determined based on the region of the Company's contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent during the three and nine months ended October 31, 2020 and 2019, respectively. No other country represented more than ten percent of total revenue during the three and nine months ended October 31, 2020 and 2019, respectively.

Contract Balances

Contract Assets

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 \$574 million as of October 31, 2020 as compared to \$449 million as of January 31, 2020, and are included in prepaid expenses and other current assets on the condensed consolidated balance sheet. Impairments of contract assets were immaterial during the three and nine months ended October 31, 2020 and 2019, respectively.

Unearned Revenue

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

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Unearned revenue, beginning of period	\$ 8,711	\$ 7,142	\$ 10,662	\$ 8,564
Billings and other (1)	4,561	3,886	12,498	9,996
Contribution from contract asset	66	61	125	112
Revenue recognized ratably over time	(4,911)	(4,047)	(14,021)	(11,270)
Revenue recognized over time as delivered	(192)	(184)	(573)	(530)
Revenue recognized at a point in time	(316)	(282)	(841)	(447)
Unearned revenue from business combinations	4	282	73	433
Unearned revenue, end of period	\$ 7,923	\$ 6,858	\$ 7,923	\$ 6,858

(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. The majority of revenue recognized for these services is from the beginning of period unearned revenue balance.

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

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

Remaining Performance Obligation

Remaining performance obligation represents contracted revenue that has not yet been recognized and 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 software license deliveries, average contract terms and foreign currency exchange rates. Remaining performance obligation is also impacted by acquisitions. 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 obligations that are billed and recognized as they are delivered. This primarily consists of professional services contracts that are on a time-and-materials basis.

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

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

	Current	Noncurrent	Total
As of October 31, 2020	\$ 15.3	\$ 15.0	\$ 30.3
As of January 31, 2020	\$ 15.0	\$ 15.8	\$ 30.8

3. Investments

Marketable Securities

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

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	\$ 3,236	\$ 19	\$ (2)	\$ 3,253
U.S. treasury securities	162	2	0	164
Mortgage backed obligations	404	4	(1)	407
Asset backed securities	1,137	7	(1)	1,143
Municipal securities	312	1	0	313
Foreign government obligations	88	1	0	89
U.S. agency obligations	101	0	0	101
Covered bonds	297	1	0	298
Total marketable securities	\$ 5,737	\$ 35	\$ (4)	\$ 5,768

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

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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	\$ 3,789	\$ 14	\$ (1)	\$ 3,802

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

	As of	
	October 31, 2020	January 31, 2020
Due within 1 year	\$ 2,187	\$ 1,332
Due in 1 year through 5 years	3,575	2,466
Due in 5 years through 10 years	6	4
	\$ 5,768	\$ 3,802

As of October 31, 2020, the following marketable securities were in a continuous unrealized loss position (in millions):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	\$ 647	\$ (2)	\$ 0	\$ 0	\$ 647	\$ (2)
Mortgage backed obligations	151	(1)	0	0	151	(1)
Asset backed securities	168	(1)	0	0	168	(1)
	\$ 966	\$ (4)	\$ 0	\$ 0	\$ 966	\$ (4)

The unrealized losses for each of the marketable securities were less than \$1 million. The Company does not believe any of the unrealized losses represent an indication of credit loss based on its evaluation of available evidence as of October 31, 2020. The Company does not intend to sell its investments in a loss position and it is not more likely than not that the Company will be required to sell the investments before recovery of the investment's amortized basis. No credit allowances were recorded as of October 31, 2020. The Company expects to receive the full principal and interest on all of these marketable securities.

Investment Income

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Interest income	\$ 17	\$ 32	\$ 63	\$ 89
Realized gains	4	0	6	1
Realized losses	(2)	0	(3)	(1)
Investment income	\$ 19	\$ 32	\$ 66	\$ 89

Strategic Investments

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

	Measurement Category			
	Fair Value	Measurement Alternative	Other	Total
Equity securities	\$ 2,261	\$ 1,507	\$ 111	\$ 3,879
Debt securities	0	0	48	48
Total strategic investments	\$ 2,261	\$ 1,507	\$ 159	\$ 3,927

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
Total strategic investments	\$ 370	\$ 1,502	\$ 91	\$ 1,963

Measurement Alternative Adjustments

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Carrying amount, beginning of period	\$ 1,537	\$ 917	\$ 1,502	\$ 785
Adjustments related to privately held equity securities:				
Net additions (1)	(55)	322	1	333
Upward adjustments	31	81	86	253
Impairments and downward adjustments	(6)	(3)	(82)	(54)
Carrying amount, end of period	\$ 1,507	\$ 1,317	\$ 1,507	\$ 1,317

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

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. The investment was accounted for using the measurement alternative. In June 2020, the Company made a strategic investment of \$100 million in cash for preferred shares of a different technology company in a preferred stock financing. The investment was accounted for using the measurement alternative.

In July 2020, one of the Company's investments, which was previously accounted for under the measurement alternative, completed its initial public offering ("IPO"), resulting in a change of accounting methodology to fair value and the recognition of an unrealized loss of \$92 million for the three months ended October 31, 2020 and an unrealized gain of \$525 million for the nine months ended October 31, 2020, which is reflected in the table below. The investment is subject to a lock-up agreement in which the Company's ability to sell is restricted until January 2021. As of October 31, 2020, the Company's carrying value of this investment was \$759 million.

In September 2020, one of the Company’s investments, which was previously accounted for under the measurement alternative, completed its IPO which resulted in a change of accounting methodology to fair value. Concurrent with the IPO, the Company invested an additional \$250 million. As of October 31, 2020, the Company recognized an unrealized gain of \$1.1 billion on this investment, which is reflected in the table below. The investment concurrent with the IPO is subject to a lock-up agreement in which the Company’s ability to sell is restricted until September 2021, while the remainder of the Company’s investment is subject to a lock-up agreement until March 2021. As of October 31, 2020, the Company’s carrying value of this investment was \$1.5 billion.

Since the adoption of Accounting Standards Update No. 2016-01 (“ASU 2016-01”), “Financial Instrument-Overall (Subtopic 825-10)” on February 1, 2018, cumulative impairments and downward adjustments were \$184 million and cumulative upward adjustments were \$540 million through October 31, 2020.

Gains on strategic investments, net

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Unrealized gains (losses) recognized on publicly traded equity securities, net	\$ 997	\$ (84)	\$ 1,620	\$ 132
Unrealized gains recognized on privately held equity securities, net	25	77	1	199
Realized gains on sales of equity securities, net	11	14	299	76
Gains (losses) on debt securities, net	3	(1)	(10)	(11)
Gains on strategic investments, net	\$ 1,036	\$ 6	\$ 1,910	\$ 396

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 securities that were exited during the three and nine months ended October 31, 2020 was \$18 million and \$545 million, respectively. Cumulative net realized gains for the nine months ended October 31, 2020 includes approximately \$147 million related to the Company’s acquisition of Vlocity in June 2020. See Note 6 “Business Combinations” for additional details on the acquisition. Cumulative net realized gains for the nine months ended October 31, 2020 also includes gains related to the Company’s sales of two of its publicly traded investments resulting in a realized gain of \$222 million, and a cumulative net gain of \$314 million.

Net unrealized gains recognized in the three and nine months ended October 31, 2020 for strategic investments still held as of October 31, 2020 were \$1.0 billion and \$1.6 billion, respectively. These include approximately \$8 million and \$99 million of impairments on its privately held equity and debt securities during the three and nine months ended October 31, 2020, respectively.

4. Derivatives

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

	As of	
	October 31, 2020	January 31, 2020
Notional amount of foreign currency derivative contracts	\$ 4,826	\$ 5,543

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

	Balance Sheet Location	As of	
		October 31, 2020	January 31, 2020
Derivative Assets			
Foreign currency derivative contracts	Prepaid expenses and other current assets	\$ 24	\$ 28
Derivative Liabilities			
Foreign currency derivative contracts	Accounts payable, accrued expenses and other liabilities	\$ 41	\$ 24

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Foreign currency derivative contracts	\$ 4	\$ (34)	\$ (24)	\$ (10)

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 October 31, 2020 and indicates the fair value hierarchy of the valuation (in millions):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of October 31, 2020
Cash equivalents (1):				
Time deposits	\$ 0	\$ 1,055	\$ 0	\$ 1,055
Money market mutual funds	1,120	0	0	1,120
Marketable securities:				
Corporate notes and obligations	0	3,253	0	3,253
U.S. treasury securities	0	164	0	164
Mortgage backed obligations	0	407	0	407
Asset backed securities	0	1,143	0	1,143
Municipal securities	0	313	0	313
Foreign government obligations	0	89	0	89
U.S. agency obligations	0	101	0	101
Covered bonds	0	298	0	298
Strategic investments:				
Publicly held equity securities	2,261	0	0	2,261
Foreign currency derivative contracts (2)	0	24	0	24
Total assets	\$ 3,381	\$ 6,847	\$ 0	\$ 10,228
Liabilities:				
Foreign currency derivative contracts (3)	0	41	0	41
Total liabilities	\$ 0	\$ 41	\$ 0	\$ 41

(1) Included in "cash and cash equivalents" in the accompanying condensed consolidated balance sheet as of October 31, 2020, in addition to \$1.5 billion of cash.

(2) Included in "prepaid expenses and other current assets" in the accompanying condensed consolidated balance sheet as of October 31, 2020.

(3) Included in "accounts payable, accrued expenses and other liabilities" in the accompanying condensed consolidated balance sheet as of October 31, 2020.

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):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 31, 2020
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)	0	28	0	28
Total assets	\$ 1,663	\$ 4,576	\$ 0	\$ 6,239
Liabilities:				
Foreign currency derivative contracts (3)	0	24	0	24
Total liabilities	\$ 0	\$ 24	\$ 0	\$ 24

(1) Included in "cash and cash equivalents" in the accompanying condensed consolidated balance sheet in addition to \$2.1 billion of cash.

(2) Included in "prepaid expenses and other current assets" in the accompanying condensed consolidated balance sheet.

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

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

The Company's privately held debt and equity securities and equity method investments are recorded at fair value on a non-recurring basis. The estimation of fair value for these investments requires the use of significant unobservable inputs, and as a result, the Company classifies these assets as Level 3 within the fair value hierarchy. For example, the Company's privately held equity securities that have been remeasured are classified within Level 3 in the fair value hierarchy because the value is based on valuation methods using the observable transaction price and other unobservable inputs including the volatility, rights, and obligations of the securities the Company holds. The Company's privately held debt and equity securities and equity method investments amounted to \$1.7 billion as of October 31, 2020 and \$1.6 billion as of January 31, 2020.

6. Business Combinations

Vlocity

In June 2020, the Company acquired all outstanding stock of Vlocity, Inc. ("Vlocity"), a leading provider of industry-specific cloud and mobile software. The Company has included the financial results of Vlocity in the condensed consolidated financial statements from the date of acquisition, which were not material to date. The transaction costs associated with its acquisition were immaterial. The acquisition date fair value of the consideration transferred for Vlocity was approximately \$1.4 billion, which consisted of the following (in millions):

	Fair Value
Cash	\$ 1,166
Fair value of stock options and restricted stock awards assumed	6
Fair value of pre-existing relationship	208
Total	\$ 1,380

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 0.05817 was applied to convert Vlocity's outstanding equity awards for Vlocity's common stock into equity awards for shares of the Company's common stock.

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

	Fair Value
Cash and cash equivalents	\$ 12
Accounts receivable	22
Goodwill	1,024
Intangible assets	473
Other assets	15
Accounts payable, accrued expenses and other liabilities, current and noncurrent	(35)
Unearned revenue	(64)
Deferred tax liability	(67)
Net assets acquired	\$ 1,380

The excess of purchase consideration over the fair value of net tangible and 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 and intangible assets acquired and liabilities assumed are based on management's estimates and assumptions and may be subject to change as additional information is received. The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, legal and other contingencies as of the acquisition date, income and non-income based taxes and residual goodwill. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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

	Fair Value	Useful Life
Developed technology	\$ 174	4 years
Customer relationships	299	8 years
Total intangible assets subject to amortization	\$ 473	

Developed technology represents the fair value of Vlocity's industry-specific cloud and mobile software. Customer relationships represent the fair values of the underlying relationships with Vlocity customers.

The Company assumed unvested options with a fair value of \$139 million. Of the total consideration, \$6 million was allocated to the purchase consideration and \$133 million was allocated to future services and will be expensed over the remaining service periods on a straight-line basis.

The Company had a noncontrolling equity investment in Vlocity valued at \$167 million prior to the acquisition. The Company recognized a gain of approximately \$41 million as a result of remeasuring its prior equity interest in Vlocity held before the business combination. The gain is included in gains on strategic investments, net in the condensed consolidated statement of operations.

Evergage

In February 2020, the Company acquired all outstanding stock of Evergage Inc. ("Evergage"), for consideration consisting of cash and equity awards assumed. Evergage is a cloud-based real-time personalization and customer data platform. The acquisition date fair value of the consideration transferred for Evergage was approximately \$100 million, which consisted of cash and the fair value of stock options and restricted stock awards assumed. The Company recorded approximately \$25 million for developed technology and customer relationships with estimated useful lives of three to five years. The Company recorded approximately \$74 million of goodwill which is primarily attributed to the assembled workforce and

expanded market opportunities from integrating Evergage's technology with the Company's other offerings. For the goodwill balance 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.

The Company has included the financial results of Evergage in the condensed consolidated financial statements from the date of acquisition, which were not material. The transaction costs associated with the acquisition were not material.

7. Intangible Assets Acquired Through Business Combinations and Goodwill

Intangible assets acquired through business combinations

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

	Intangible Assets, Gross			Accumulated Amortization			Intangible Assets, Net		Weighted Average Remaining Useful Life (Years)
	January 31, 2020	Additions and retirements, net	October 31, 2020	January 31, 2020	Expense and retirements, net	October 31, 2020	January 31, 2020	October 31, 2020	October 31, 2020
Acquired developed technology	\$ 3,598	\$ 190	\$ 3,788	\$ (1,249)	\$ (494)	\$ (1,743)	\$ 2,349	\$ 2,045	3.4
Customer relationships	3,252	316	3,568	(888)	(331)	(1,219)	2,364	2,349	7.0
Other (1)	72	6	78	(61)	(13)	(74)	11	4	3.6
Total	<u>\$ 6,922</u>	<u>\$ 512</u>	<u>\$ 7,434</u>	<u>\$ (2,198)</u>	<u>\$ (838)</u>	<u>\$ (3,036)</u>	<u>\$ 4,724</u>	<u>\$ 4,398</u>	5.3

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

Amortization of intangible assets resulting from business combinations for the three months ended October 31, 2020 and 2019 was \$283 million and \$266 million, respectively, and for the nine months ended October 31, 2020 and 2019 was \$838 million and \$522 million, respectively.

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

Fiscal Period:	
Remaining three months of fiscal 2021	\$ 284
Fiscal 2022	1,078
Fiscal 2023	923
Fiscal 2024	835
Fiscal 2025	568
Thereafter	710
Total amortization expense	<u>\$ 4,398</u>

Customer contract assets acquired through business combinations

Customer contract assets resulting from business combinations reflects the fair value of future billings of amounts that are contractually committed by acquired companies' existing customers as of the acquisition date. Customer contract assets are amortized over the corresponding contract terms. Customer contract assets resulting from business combinations were \$54 million and \$93 million as of October 31, 2020 and January 31, 2020, respectively, and are included in other assets on the condensed consolidated balance sheets.

Goodwill

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

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

Balance as of January 31, 2020	\$	25,134
Evergage		74
Vlocity		1,024
Other acquisitions and adjustments (1)		81
Balance as of October 31, 2020	\$	<u>26,313</u>

(1) Adjustments include measurement period adjustments for business combinations from the prior year and the effect of foreign currency translation.

8. Debt

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

Instrument	Date of issuance	Maturity date	Effective interest rate for the three months ended October 31, 2020	October 31, 2020	January 31, 2020
2023 Senior Notes	April 2018	April 2023	3.26%	\$ 996	\$ 995
2028 Senior Notes	April 2018	April 2028	3.70%	1,490	1,489
Loan assumed on 50 Fremont	February 2015	June 2023	3.75%	190	193
Total carrying value of debt				<u>2,676</u>	<u>2,677</u>
Less current portion of debt				<u>(4)</u>	<u>(4)</u>
Total noncurrent debt				<u>\$ 2,672</u>	<u>\$ 2,673</u>

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

The total estimated fair value of the Company's 2023 and 2028 Senior Notes as of October 31, 2020 and January 31, 2020 was \$2.8 billion and \$2.7 billion, respectively. 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 third quarter of fiscal 2021 and last day of trading for the fourth quarter of fiscal 2020, respectively, and is deemed a Level 2 liability within the fair value measurement framework.

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

Fiscal period:	
Remaining three months of fiscal 2021	\$ 1
Fiscal 2022	4
Fiscal 2023	4
Fiscal 2024	1,182
Fiscal 2025	0
Thereafter	1,500
Total principal outstanding	<u>\$ 2,691</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 October 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 condensed consolidated statement of operations.

Interest Expense on Debt

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Contractual interest expense	\$ 24	\$ 26	\$ 72	\$ 82
Amortization of debt issuance costs	1	1	3	3
	<u>\$ 25</u>	<u>\$ 27</u>	<u>\$ 75</u>	<u>\$ 85</u>

9. Other Balance Sheet Accounts

In March 2020, the Company purchased the property located at 450 Mission St. (“450 Mission”) in San Francisco, California for approximately \$150 million, of which \$110 million was allocated to land, \$34 million to building, which is included in property and equipment, net and \$6 million to in-place leases, which is included in intangible assets in the accompanying condensed consolidated balance sheet.

Accounts payable, accrued expenses and other liabilities as of October 31, 2020 included approximately \$1.6 billion of accrued compensation as compared to \$1.5 billion as of January 31, 2020.

10. Stockholders' Equity

The fair value of the Company's stock options and ESPP shares was estimated on the date of grant and the first day of the ESPP purchase period, respectively, using the Black-Scholes option pricing model. The weighted-average fair value per share for stock options grants, excluding assumed awards, was \$59.54 and \$40.52 in the three and nine months ended October 31, 2020, respectively compared to \$35.31 and \$39.65 in the three and nine months ended October 31, 2019, respectively.

ESPP assumptions and the related fair value per share table are disclosed in the three month period in which there is ESPP activity, such as an ESPP purchase. The Company's ESPP allows for two purchases during the fiscal year, one during the second quarter and one during the fourth quarter. The estimated life of the ESPP will be based on the two purchase periods within each offering period. The weighted-average fair value per share for ESPP shares was \$53.64 in the three months ended October 31, 2020.

Stock option activity, excluding the ESPP for the nine months ended October 31, 2020 is as follows:

	Options Outstanding		
	Outstanding Stock Options (in millions)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in millions)
Balance as of January 31, 2020	27	\$ 98.56	
Options granted under all plans	8	145.30	
Exercised	(10)	79.77	
Plan shares expired or canceled	(1)	133.43	
Balance as of October 31, 2020	<u>24</u>	<u>\$ 118.31</u>	<u>\$ 2,765</u>
Vested or expected to vest	<u>22</u>	<u>\$ 115.96</u>	<u>\$ 2,611</u>
Exercisable as of October 31, 2020	<u>10</u>	<u>\$ 82.86</u>	<u>\$ 1,523</u>

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

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding (in millions)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares (in millions)	Weighted-Average Exercise Price
\$0.36 to \$59.34	5	3.3	\$ 39.88	4	\$ 41.36
\$59.64 to \$98.90	3	3.2	78.09	3	78.28
\$106.83 to \$125.44	3	4.4	118.49	2	118.52
\$142.33 to \$148.95	2	5.7	146.82	0	146.43
\$154.14	6	6.5	154.14	0	0.00
\$155.20 to \$249.67	5	5.5	165.84	1	161.50
	<u>24</u>	<u>4.9</u>	<u>\$ 118.31</u>	<u>10</u>	<u>\$ 82.86</u>

Restricted stock activity for the nine months ended October 31, 2020 is as follows:

	Restricted Stock Outstanding		
	Outstanding (in millions)	Weighted-Average Grant Date Fair Value	Aggregate Intrinsic Value (in millions)
Balance as of January 31, 2020	28	\$ 140.14	
Granted - restricted stock units and awards	11	163.01	
Granted - performance-based stock units	1	154.14	
Canceled	(2)	142.18	
Vested and converted to shares	(10)	131.96	
Balance as of October 31, 2020	<u>28</u>	<u>\$ 152.31</u>	<u>\$ 6,553</u>
Expected to vest	<u>25</u>		<u>\$ 5,725</u>

During the nine months ended October 31, 2020 the Company recognized stock-based expense related to its equity plans for employees and non-employee directors of \$1.6 billion. The aggregate stock compensation remaining to be recognized as of October 31, 2020 is as follows (in millions):

Fiscal Period:	
Remaining three months of fiscal 2021	\$ 526
Fiscal 2022	1,752
Fiscal 2023	1,283
Fiscal 2024	718
Fiscal 2025	138
Total stock compensation	<u>\$ 4,417</u>

The expected amortization reflects only outstanding stock awards as of October 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 approximately 3 years.

Shares reserved and available for future issuance as of October 31, 2020 and January 31, 2020 were 143 million shares and 133 million shares, respectively.

11. Income Taxes

Effective Tax Rate

The Company computes its year-to-date provision for income taxes by applying the estimated annual effective tax rate to year-to-date pretax income or loss and adjusts the provision for discrete tax items recorded in the period. For the nine months ended October 31, 2020, the Company reported a tax benefit of \$1.7 billion on a pretax income of \$2.1 billion, which resulted in a negative effective tax rate of 78 percent. The Company's effective tax rate differs from the U.S. statutory rate of 21 percent

primarily due to a one-time discrete tax benefit of \$2.0 billion recorded during the three months ended July 31, 2020. The Company changed its international corporate structure, which included the consolidation of certain intangible property in Ireland resulting in a net tax benefit related to foreign deferred tax assets. The Company believes that it is more likely than not the deferred tax assets will be realized in Ireland.

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

Unrecognized Tax Benefits and Other Considerations

The Company records liabilities related to its uncertain tax positions. Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. Certain prior year tax returns are currently being examined by various taxing authorities in countries including the United States, France, Germany and Japan. The Company believes that it has provided adequate reserves for its income tax uncertainties in all open tax years. As the outcome of the tax audits cannot be predicted with certainty, if any issues arising in the Company's tax audits progress in a manner inconsistent with management's expectations, the Company could adjust its provision for income taxes in the future. In addition, the Company anticipates it is reasonably possible that a decrease of its unrecognized tax benefits up to approximately \$6 million may occur in the next 12 months, as the applicable statutes of limitations lapse, ongoing examinations are completed, or tax positions meet the conditions of being effectively settled.

12. Net Income (Loss) 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 and restricted stock units. The dilutive effect of outstanding awards and convertible securities is reflected in diluted earnings per share by application of the treasury stock method.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Numerator:				
Net income (loss)	\$ 1,081	\$ (109)	\$ 3,805	\$ 374
Denominator:				
Weighted-average shares outstanding for basic earnings per share	911	879	905	809
Dilutive effect of employee stock awards	28	0	21	20
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings (loss) per share	939	879	926	829

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Employee stock awards	0	28	8	6

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 one year to 22 years, some of which include options to extend for up to five years, and some of which include options to terminate within one year.

Total operating lease costs were \$278 million and \$230 million for the three months ended October 31, 2020 and 2019, respectively and \$815 million and \$653 million for the nine months ended October 31, 2020 and 2019, respectively.

For the three and nine months ended October 31, 2020, cash payments for operating leases were \$222 million and \$672 million, respectively. New leases commenced during the period resulted in an increase to ROU assets and corresponding operating lease liabilities of \$196 million and \$562 million during the three and nine months ended October 31, 2020, respectively.

As of October 31, 2020, for operating leases, the weighted-average remaining lease term is six years, and the weighted-average discount rate is 2.5 percent. As of October 31, 2020, for finance leases, the weighted-average remaining lease term is 18 years, and the weighted-average discount rate is 4.2 percent.

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

	Operating Leases	Finance Leases
Fiscal Period:		
Remaining three months of fiscal 2021	\$ 222	\$ 8
Fiscal 2022	784	34
Fiscal 2023	605	35
Fiscal 2024	434	35
Fiscal 2025	327	31
Thereafter	1,111	410
Total minimum lease payments	3,483	553
Less: Imputed interest	(315)	(174)
Total	\$ 3,168	\$ 379

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 \$175 million in the next five years and \$39 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.

As of October 31, 2020, the Company has additional operating leases that have not yet commenced totaling \$1.9 billion and therefore not reflected on the condensed consolidated balance sheet and tables above. These operating leases include agreements for office facilities to be constructed. These operating leases will commence between fiscal year 2021 and fiscal year 2025 with lease terms of 3 to 18 years.

The total operating lease commitment balance, including leases not yet commenced, of \$5.4 billion, includes approximately \$4.8 billion related to facilities space. The remaining commitment amount is primarily related to equipment.

Letters of Credit

As of October 31, 2020, the Company had a total of \$102 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. 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 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. At this time, the Company is not able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces, and the Company's estimates may not prove to be accurate.

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

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, among other things, 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 more 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 class certification. The parties have completed fact and expert discovery. On October 1, 2020, the Court entered an order staying the deadline for summary judgment motions to allow the parties to complete additional 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. In April 2020, the same purported stockholder who filed the 2018 derivative action, who had previously been a shareholder of Tableau and acquired shares of Salesforce as a result of the acquisition of Tableau by Salesforce in August 2019, filed a "double derivative" action in the United States District Court for the District of Delaware, allegedly on behalf of and for the benefit of Salesforce and Tableau, against certain of Tableau's now former directors and officers. The double derivative complaint adds Salesforce as an additional nominal defendant, but otherwise names the same individual defendants, generally alleges the same purported wrongdoing, and seeks the same relief as the 2018 derivative action. On April 24, 2020, the court consolidated the 2018 and 2020 derivative actions. On June 5, 2020, the parties stipulated, and on June 12, 2020, the court entered an order, vacating the defendants' deadline to respond to the April 2020 complaint and requiring the plaintiff to file an amended complaint on or before August 11, 2020. On August 11, 2020, the plaintiff filed its amended complaint. The Company filed a motion to dismiss the amended complaint on September 25, 2020. The plaintiff opposed the Company's motion to dismiss on November 9, 2020. The Company's reply brief in support of the motion to dismiss is due on December 9, 2020. The court has not yet set a hearing on the Company's motion to dismiss.

15. Related-Party Transactions

In January 1999, the Salesforce Foundation (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. The Company's Chair is the chair of the Foundation and holds one of the three Foundation board seats. The Company does not control the Foundation's activities, and accordingly, the Company does not consolidate the Foundation's statement of activities with its financial results. Since the Foundation's inception, the Company has provided at no charge certain resources to the Foundation including general administrative support. The value of these resources to the Foundation has not been material.

As a result of the fiscal 2020 business combination with Salesforce.org, which was a related party, the Company agreed to use its best efforts to make charitable cash commitments of up to \$5 million quarterly to the Foundation for ten years beginning in the third quarter of fiscal 2020.

16. Subsequent Events

Slack Technologies, Inc.

In December 2020, the Company entered into a definitive agreement to acquire Slack Technologies, Inc. ("Slack"), a leading channel-based messaging platform. Under the terms of the agreement, Slack shareholders will receive \$26.79 in cash

and 0.0776 shares of Salesforce common stock for each outstanding Slack share of common stock. The transaction represents an enterprise value of approximately \$27.7 billion based on the closing price of the Company's common stock on November 30, 2020. The agreement also provides for the Company's assumption of outstanding equity awards held by Slack employees. The Company expects to fund the cash portion of the consideration with a combination of new debt and cash on the Company's balance sheet. In connection with its entry into the definitive agreement for the acquisition, the Company has obtained a commitment for a \$10 billion 364-day senior unsecured bridge loan facility, subject to customary conditions.

The acquisition is anticipated to close in the second quarter of fiscal year 2022, subject to customary closing conditions, including receipt of Slack stockholder approval and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and receipt of other approvals, consents or clearances under specified antitrust and foreign investment laws.

Acumen Solutions, Inc.

In November 2020, the Company entered into an agreement to acquire Acumen Solutions, Inc. ("Acumen") a professional services firm that provides innovative and critical solutions to clients using the Company's service offerings and other advanced cloud technologies. Under the terms of the agreement, the Company will acquire Acumen for approximately \$570 million in cash, subject to customary purchase price adjustments. The acquisition is expected to close in the first half of fiscal 2022, subject to customary closing conditions.

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

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Words such as "expects," "anticipates," "aims," "projects," "intends," "plans," "believes," "estimates," "seeks," "assumes," "may," "should," "could," "would," "foresees," "forecasts," "predicts," "targets," "commitments," 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, industry prospects and the anticipated impact on our business of the ongoing COVID-19 pandemic and related public health measures. These forward-looking statements are based on current expectations, estimates and forecasts, as well as the beliefs and assumptions of our management, and are subject to risks and uncertainties that are difficult to predict, including: the impact of, and actions we may take in response to, the COVID-19 pandemic, related public health measures and resulting economic downturn and market volatility; our ability to maintain service performance and security levels meeting the expectations of our customers, and the resources and costs required to avoid unanticipated downtime and prevent, detect and remediate performance degradation and security breaches; the expenses associated with our data centers and third-party infrastructure providers; our ability to secure and costs related to 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; current and potential litigation involving us or our industry, including litigation involving acquired entities such as Tableau, and the resolution or settlement thereof; regulatory developments and regulatory investigations involving us or affecting our industry; our ability to successfully introduce new services and product features, including any efforts to expand our services beyond the CRM market; the success of our strategy of acquiring or making investments in complementary businesses, joint ventures, services, technologies and intellectual property rights, including our proposed acquisition of Slack Technologies, Inc.; our ability to realize the benefits from strategic partnerships, joint ventures and investments; our ability to successfully integrate acquired businesses and technologies; our ability to compete in the market in which we participate; the success of our business strategy and our plan to build our business, including our strategy to be a 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 ability to limit customer attrition and costs related to those efforts; the success of 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; our real estate and office facilities strategy and related costs and uncertainties; fluctuations in, and our ability to predict, our operating results and cash flows; the variability in our results arising from the accounting for term license revenue products; 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; uncertainties regarding the effect of general economic and market conditions; the impact of geopolitical events; uncertainties regarding the impact of expensing stock options and other equity awards; the sufficiency of our capital resources; risks related to our bridge loan facility associated with our proposed acquisition of Slack Technologies, Inc., 2023 and 2028 senior notes, revolving credit facility and loan associated with 50 Fremont; our ability to comply with our debt covenants and lease obligations; and the impact of climate change, natural disasters and actual or threatened public health emergencies, including the ongoing COVID-19 pandemic. These and other risks and uncertainties may cause our actual results to differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below under "Risk Factors" and elsewhere in this report for additional detail regarding factors that may cause actual results to be different than those expressed in our forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are a global leader in customer relationship management ("CRM") technology that brings companies and customers together. Founded in 1999, we enable 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, advanced analytics and artificial intelligence ("AI"), to transform their businesses.

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.

COVID-19 Impact

In December 2019, the novel coronavirus and resulting disease (“COVID-19”) was first reported. After ongoing assessment of the rapid spread, number of cases and countries affected, on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The COVID-19 pandemic has created significant global economic uncertainty, adversely impacted the business of our customers and partners, impacted our business and results of operations and could further impact our results of operations and our cash flows in the future.

In response to the COVID-19 pandemic, we have been guided by our core values of trust, customer success, innovation and equality. Beginning in the first fiscal quarter of fiscal 2021, we took actions in response to the pandemic that focused on maintaining business continuity, helping our employees, helping our customers and communities, and preparing for the future and the long-term success of our business. As a result of the pandemic and actions taken by us in response to the pandemic, our results for the first fiscal quarter 2021 reflected a decline in new business as compared to the same prior-year period, incremental operating expenses and lower than expected operating cash flows.

While we experienced declines in the first fiscal quarter of fiscal 2021, new business grew in the second and third quarters of fiscal 2021 at rates consistent with historical trends prior to COVID-19. In fiscal 2021, changes in billing frequency for new business and investments in our go-to-market efforts resulted in a negative impact to our operating cash flows during the quarter. Our income from operations continued to benefit from our global work from home policy and limited business travel by our employees in the second and third quarters of fiscal 2021.

As a result of the financial impacts of COVID-19 we experienced during the nine months ended October 31, 2020 and our current assumptions related to the extent to which the pandemic will affect our business going forward, we expect modest growth in our new incremental business and renewals, total revenues, remaining performance obligation and operating cash flows for the fourth quarter of fiscal 2021. We do not yet know the impact this will have on our long-term revenue growth.

We have in the past implemented strategic realignments to position the Company for future growth and will continue to do so, particularly as we evaluate the impact of COVID-19 on our business. As part of our current strategic realignment, we have redirected and may in the future redirect some resources from areas that no longer align with our business priorities into key growth and strategic areas, as well as to increase investments in our go-to-market and product efforts. As a result of these investments and redirection efforts, which included some position eliminations, we incurred during the third quarter, and expect to continue to incur during the fourth quarter of fiscal 2021, an increase in expenses. In addition, in the fourth quarter of fiscal 2021, we plan to consolidate and sublease our existing real estate leases in select locations resulting in potential impairments to our existing operating lease right of use assets. As we adjust and refine our strategy, there may be additional investments and redirection efforts in the future.

In addition, authorities throughout the world have implemented numerous preventative measures to contain or mitigate further spread of the virus, such as travel bans and restrictions, limitations on business activity, quarantines, work-from-home directives and shelter-in-place orders. These measures have caused, and are expected to continue to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide. These business slowdowns and shutdowns have impacted and may continue to impact our business and results of operations. For example, the extent and duration of these measures could impact our ability to address cybersecurity incidents; have resulted in increased internet demand, which could cause access issues; could affect our ability to develop and support products and services; and could cause issues with access to data centers.

The ultimate extent of the impact of the COVID-19 pandemic on our operational and financial performance depends on certain developments, including the duration of the pandemic, the severity of the disease, responsive actions taken by public health officials, the impacts on our customers and our sales cycles, our ability to generate new business leads, the impacts on our customers, employee and industry events, and the effects on our vendors, all of which are uncertain and currently cannot be predicted with any degree of certainty. As a result, the extent to which the COVID-19 pandemic will continue to impact our financial condition or results of operations is uncertain. Due to our primarily subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. If the COVID-19 pandemic has a substantial impact on our employees’, partners’ or customers’ productivity, our results of operations and overall financial performance may be harmed. In addition, the global macroeconomic effects of the COVID-19 pandemic and related impacts on our customers’ business operations and their demand for our products and services may persist for an indefinite period, even after the COVID-19 pandemic has subsided.

See Part I, Item 1A. “Risk Factors” for further discussion of the impact and possible future impacts of the COVID-19 pandemic on our business.

Highlights from the Third Quarter of Fiscal Year 2021.

- **Revenue:** Total third quarter revenue was \$5.4 billion, an increase of 20 percent year-over-year.

- **Earnings per Share:** Third quarter diluted earnings per share was \$1.15 as compared to a loss per share of \$0.12 from a year ago. Third quarter diluted earnings per share benefited by an unrealized gain of \$1.1 billion associated with the initial public offering of one of our strategic investments.
- **Cash:** Cash provided by operations for the third quarter was \$339 million, an increase of 14 percent year-over-year. Total cash, cash equivalents and marketable securities ended the third quarter at \$9.5 billion.
- **Remaining Performance Obligation:** Remaining performance obligation ended the third quarter at approximately \$30.3 billion, an increase of 17 percent year-over-year. Current remaining performance obligation ended the third quarter at approximately \$15.3 billion, an increase of 20 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. In addition, even as we help respond to the urgent demands as a result of the COVID-19 pandemic, we are innovating and delivering new solutions to help our customers succeed, such as through a suite of applications built on our platform designed to help our customers re-open safely (Work.com) and to help governments and healthcare organizations manage vaccine programs (Salesforce Care).

We regularly evaluate acquisitions and 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 and to nurture the overall ecosystem for our offerings. We continue to evaluate such opportunities and expect to continue to make such investments and acquisitions in the future. We also plan to continue 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 acquisition of Vlocity in June 2020 and our pending acquisition of Slack Technologies, Inc. ("Slack"), which was signed in December 2020 and is expected to close in the second quarter of fiscal 2022.

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 and increased enterprise solution selling activities. While we do not expect any of these changes to have a material adverse effect on our business, we experienced slower growth in new business in the first quarter of fiscal 2021 than we originally planned, primarily due to the impacts of COVID-19. Our growth in new business in the second and third quarters of fiscal 2021 was consistent with historical trends. Slower growth in new business in a given period could negatively affect our revenues in future periods, as well as remaining performance obligation in current or future periods, particularly if experienced on a sustained basis.

The expanding global scope of our business and the heightened volatility of global markets, including as a result of COVID-19, expose us to the risk of fluctuations in foreign currency markets. Fluctuations in foreign currency exchange rates had a minimal adverse impact on our revenue results for the nine months ended October 31, 2020 and had a modest favorable impact on our remaining performance obligation as of October 31, 2020. We expect these fluctuations to continue in the future.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2021, for example, refer to the fiscal year ending January 31, 2021.

Operating Segments

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

Sources of Revenues

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

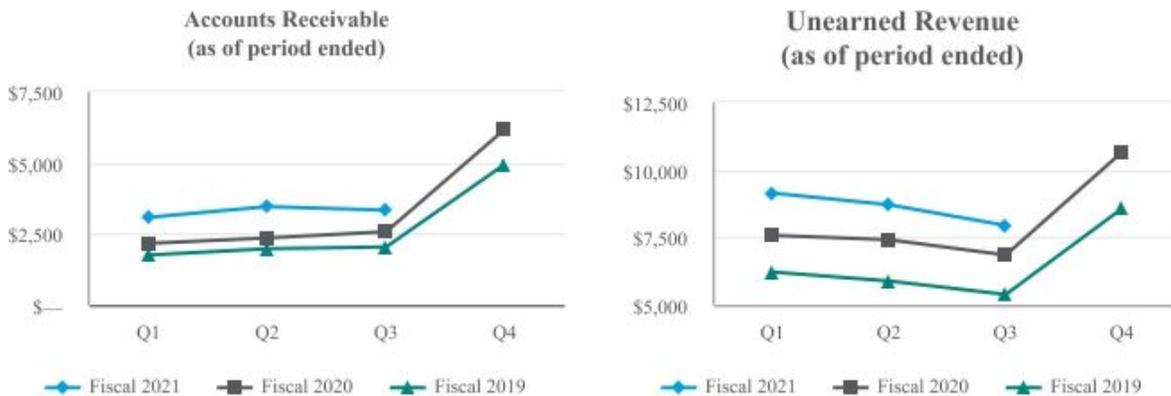
acquisition of Tableau, subscription and support revenues also include revenues associated with software licenses. Software license revenues include fees from the sales of term and perpetual licenses. Revenues from software licenses are generally recognized upfront when the software is made available to the customer and revenues from the related support are generally recognized ratably over the contract term. Changes in average contract duration for multi-year licenses can impact revenues recognized upfront. Revenues from software licenses represent less than ten percent of total subscription and support revenue for the nine months ended October 31, 2020.

The revenue growth rates of each of our 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 our Sales, Service or Platform service offering 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.

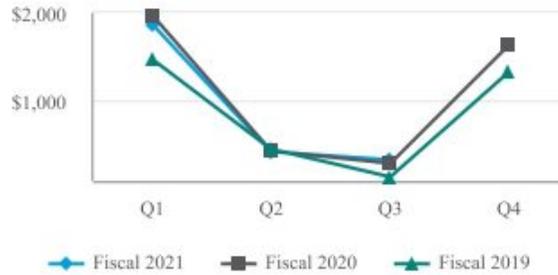
Seasonal Nature of Unearned Revenue, Accounts Receivable and Operating Cash Flow

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 impact of COVID-19, including the temporary financial flexibility offered to some customers in the first quarter of fiscal 2021, which has delayed payments to periods later than expected, as well as investments made in our go-to-market efforts has affected and may continue to affect trends related to the seasonal nature of unearned revenue, accounts receivable and operating cash flow. For example, we have accelerated our investments in our go-to-market and product efforts and expect to continue to do so throughout the remainder of fiscal 2021 resulting in an increase in expenses and a negative impact to operating cash flow.

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).



**Net Cash Provided by Operating Activities
(three months ended)**



The results reflected in the tables above, beginning in the third quarter of fiscal 2020, include the impact of the Tableau acquisition in August 2019.

Remaining Performance Obligation

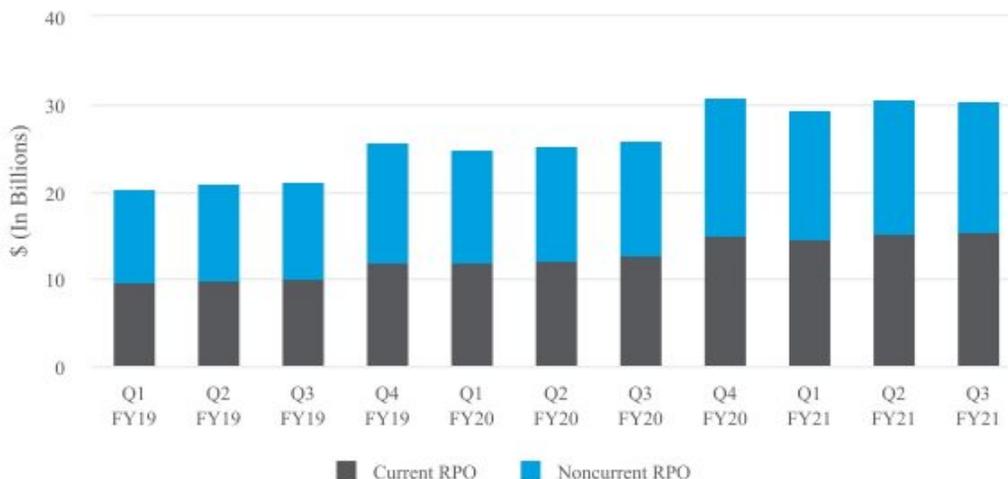
Our remaining performance obligation represents all future revenue under contract that has not yet been recognized as revenue and includes unearned revenue and unbilled amounts. Our current remaining performance obligation represents future revenue under contract that is expected to be recognized as 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. Remaining performance obligation is also impacted by acquisitions. 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 are typically high at the beginning of the contract period, zero just prior to renewal, and increase if the agreement is renewed. Low remaining performance obligation attributable to a particular subscription agreement is often associated with an impending renewal but may not be an indicator of the likelihood of renewal or future revenue from such customer. Changes in average contract duration can impact remaining performance obligation and current remaining performance obligation.

Our growth in incremental new business and renewals were consistent with historical trends in the third quarter of fiscal 2021 and benefited our current remaining performance obligation for the third quarter of fiscal 2021. In addition, fluctuations in foreign currency exchange rates had a modest favorable impact on our current remaining performance obligation as of October 31, 2020.

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

Remaining Performance Obligation (RPO) (as of period ended)



Cost of Revenues and Operating Expenses

Impact of Acquisitions

The comparability of our operating results is impacted by our recent acquisitions, including our acquisition of Vlocity in June 2020 and our 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 make up the majority of our operating expenses 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 condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related

disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

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

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

These estimates may change, as new events occur and additional information is obtained, and such changes will be recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from these estimates, including as a result of the COVID-19 pandemic, and any such differences may be material to our financial statements.

Recent Accounting Pronouncements

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

Results of Operations

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2020	% of Total Revenues	2019	% of Total Revenues	2020	% of Total Revenues	2019	% of Total Revenues
Revenues:								
Subscription and support	\$ 5,085	94 %	\$ 4,239	94 %	\$ 14,500	94 %	\$ 11,480	94 %
Professional services and other	334	6	274	6	935	6	767	6
Total revenues	5,419	100	4,513	100	15,435	100	12,247	100
Cost of revenues (1)(2):								
Subscription and support	1,060	20	870	19	3,039	20	2,275	19
Professional services and other	334	6	264	6	920	6	740	6
Total cost of revenues	1,394	26	1,134	25	3,959	26	3,015	25
Gross profit	4,025	74	3,379	75	11,476	74	9,232	75
Operating expenses (1)(2):								
Research and development	902	17	774	17	2,659	17	1,935	16
Marketing and sales	2,377	44	2,063	46	7,042	45	5,584	45
General and administrative	522	9	477	11	1,513	10	1,214	10
Loss on settlement of Salesforce.org reseller agreement	0	0	0	0	0	0	166	1
Total operating expenses	3,801	70	3,314	74	11,214	72	8,899	72
Income from operations	224	4	65	1	262	2	333	3
Gains on strategic investments, net	1,036	19	6	0	1,910	12	396	3
Other income (expense)	(10)	0	(7)	0	(36)	0	(19)	0
Income before benefit from (provision for) income taxes	1,250	23	64	1	2,136	14	710	6
Benefit from (provision for) income taxes (3)	(169)	(3)	(173)	(3)	1,669	11	(336)	(3)
Net income (loss)	\$ 1,081	20 %	\$ (109)	(2) %	\$ 3,805	25 %	\$ 374	3 %

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2020	% of Total Revenues	2019	% of Total Revenues	2020	% of Total Revenues	2019	% of Total Revenues
Cost of revenues	\$ 169	3 %	\$ 157	4 %	\$ 494	3 %	\$ 280	2 %
Marketing and sales	114	2	109	2	344	2 %	242	2

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

	Three Months Ended October 31,				Nine Months Ended October 31,			
	2020	% of Total Revenues	2019	% of Total Revenues	2020	% of Total Revenues	2019	% of Total Revenues
Cost of revenues	\$ 65	1 %	\$ 54	1 %	\$ 180	1 %	\$ 143	1 %
Research and development	181	3	169	4	531	4	348	3
Marketing and sales	242	5	249	6	718	5	625	5
General and administrative	78	1	71	1	219	1	158	1

(3) In the second quarter of fiscal 2021, we recorded approximately \$2.0 billion of benefit from income taxes due to a one-time discrete tax item from the recognition of deferred tax assets related to an intra-entity transfer of intangible property.

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):

	As of October 31,		As of January 31,	
	2020		2020	
Cash, cash equivalents and marketable securities	\$	9,492	\$	7,947
Unearned revenue		7,923		10,662
Remaining performance obligation		30.3		30.8
Principal due on our outstanding debt obligations (1)		2,691		2,694

(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 three and nine months ended October 31, 2020 compared to the same period of fiscal 2020 was impacted by our acquisitions in the current and prior year, including the acquisition of Tableau in the prior year, which was our largest acquisition to date. In our discussion of changes in our results of operations for the three and nine months ended October 31, 2020 compared to the same periods of fiscal 2020, 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.

Revenues

(in millions)	Three Months Ended October 31,		Variance	
	2020	2019	Dollars	Percent
Subscription and support	\$ 5,085	\$ 4,239	\$ 846	20 %
Professional services and other	334	274	60	22
Total revenues	\$ 5,419	\$ 4,513	\$ 906	20 %

(in millions)	Nine Months Ended October 31,		Variance	
	2020	2019	Dollars	Percent
Subscription and support	\$ 14,500	\$ 11,480	\$ 3,020	26 %
Professional services and other	935	767	168	22
Total revenues	\$ 15,435	\$ 12,247	\$ 3,188	26 %

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 six percent of total subscription and support revenues for the three and nine months ended October 31, 2020. Subscription and support revenues accounted for approximately 94 percent of our total revenues for both the three and nine months ended October 31, 2020 and 2019. Additionally, subscription and support revenues increased by approximately \$46 million as a result of one more day (February 29, 2020) in the nine months ended October 31, 2020 compared to the same period a year ago.

The acquisition of Tableau in August 2019 contributed approximately \$378 million and \$1.0 billion to total subscription and support revenues in the three and nine months ended October 31, 2020, respectively. 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 October 31, 2020, our attrition rate, excluding our Integration service offering, Salesforce.org and Tableau, was less than ten percent. In general, we exclude service offerings from acquisitions from our attrition calculation until they are fully integrated into our customer success organization. While our attrition rate is difficult to predict, we expect it to remain consistent in the near term due to the diversity of size, industry and geography within the customer base. However, our attrition rate may increase over time, including, for example, as a result of COVID-19.

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):

	Three Months Ended October 31,		Variance	Percent
	2020	2019		
Sales	\$ 1,311	\$ 1,168		12%
Service	1,376	1,140		21%
Platform and Other	1,594	1,287		24%
Marketing and Commerce	804	644		25%
Total	\$ 5,085	\$ 4,239		

	Nine Months Ended October 31,		Variance	Percent
	2020	2019		
Sales	\$ 3,835	\$ 3,371		14%
Service	3,931	3,247		21%
Platform and Other	4,470	3,041		47%
Marketing and Commerce	2,264	1,821		24%
Total	\$ 14,500	\$ 11,480		

Our Industry Offerings revenue is included in either Sales, Service or Platform and Other depending on the primary service offering purchased. Integration and Analytics revenues are included in Platform and Other. The acquisition of Tableau in August 2019 contributed approximately \$378 million and \$1.0 billion to Platform and Other during the three and nine months ended October 31, 2020, respectively. The revenue growth rates of each of our core service offerings have been and may be adversely impacted by COVID-19 in the future, depending on our customers' actual and projected business needs.

Revenues by geography were as follows:

(in millions)	Three Months Ended October 31,				
	2020	As a % of Total Revenues	2019	As a % of Total Revenues	Growth rate
Americas	\$ 3,758	69 %	\$ 3,216	71 %	17 %
Europe	1,149	21	880	20	31
Asia Pacific	512	10	417	9	23
	<u>\$ 5,419</u>	<u>100 %</u>	<u>\$ 4,513</u>	<u>100 %</u>	<u>20 %</u>

(in millions)	Nine Months Ended October 31,				
	2020	As a % of Total Revenues	2019	As a % of Total Revenues	Growth rate
Americas	\$ 10,724	69 %	\$ 8,649	71 %	24 %
Europe	3,253	21	2,421	20	34
Asia Pacific	1,458	10	1,177	9	24
	<u>\$ 15,435</u>	<u>100 %</u>	<u>\$ 12,247</u>	<u>100 %</u>	<u>26 %</u>

Revenues by geography are determined based on the region of the Salesforce contracting entity, which may be different than the region of the customer. The increase in Americas revenues was the result of the increasing acceptance of our services and the investment of additional sales resources. 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 had a minimal impact on revenues outside of the Americas for the three and nine months ended October 31, 2020 and 2019.

Cost of Revenues.

(in millions)	Three Months Ended October 31,		Variance
	2020	2019	Dollars
Subscription and support	\$ 1,060	\$ 870	\$ 190
Professional services and other	334	264	70
Total cost of revenues	<u>\$ 1,394</u>	<u>\$ 1,134</u>	<u>\$ 260</u>
Percent of total revenues	26 %	25 %	

(in millions)	Nine Months Ended October 31,		Variance
	2020	2019	Dollars
Subscription and support	\$ 3,039	\$ 2,275	\$ 764
Professional services and other	920	740	180
Total cost of revenues	<u>\$ 3,959</u>	<u>\$ 3,015</u>	<u>\$ 944</u>
Percent of total revenues	26 %	25 %	

For the three months ended October 31, 2020, the increase in cost of revenues was primarily due to an increase of \$84 million in employee-related costs, an increase of \$11 million in stock-based expenses, an increase of \$59 million in service delivery costs, primarily due to our efforts to increase data center capacity, an increase of amortization of purchased intangible assets of \$12 million and an increase in allocated overhead. For the nine months ended October 31, 2020, the increase in cost of revenues was primarily due to an increase of \$276 million in employee-related costs, an increase of \$37 million in stock-based

expenses, an increase of \$220 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 \$214 million.

We have increased our headcount by 20 percent since October 31, 2019 to meet the higher demand for services from our customers. 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 break-even and positive \$15 million during the three and nine months ended October 31, 2020, respectively, and positive \$10 million and \$27 million during the three and nine months ended October 31, 2019, respectively. We expect the cost of professional services to be approximately in line with revenues from professional services in future fiscal quarters. We believe that this investment in professional services facilitates the adoption of our service offerings.

Operating Expenses.

(in millions)	Three Months Ended October 31,		Variance
	2020	2019	Dollars
Research and development	\$ 902	\$ 774	\$ 128
Marketing and sales	2,377	2,063	314
General and administrative	522	477	45
Total operating expenses	\$ 3,801	\$ 3,314	\$ 487
Percent of total revenues	70 %	74 %	

(in millions)	Nine Months Ended October 31,		Variance
	2020	2019	Dollars
Research and development	\$ 2,659	\$ 1,935	\$ 724
Marketing and sales	7,042	5,584	1,458
General and administrative	1,513	1,214	299
Loss on settlement of Salesforce.org reseller agreement	0	166	(166)
Total operating expenses	\$ 11,214	\$ 8,899	\$ 2,315
Percent of total revenues	72 %	72 %	

For the three months ended October 31, 2020, the increase in research and development expense was primarily due to an increase of approximately \$98 million in employee related costs, an increase of \$12 million in stock-based expenses, an increase in our development and test data center costs and allocated overhead. For the nine months ended October 31, 2020, the increase in research and development expenses was primarily due to an increase of approximately \$452 million in employee-related costs, an increase of \$183 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 13 percent since October 31, 2019 in order to improve and extend our service offerings, develop new technologies, and integrate acquired companies. We expect that research and development expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to invest in additional employees and technology to support the development of new, and improve existing, technologies and the integration of acquired technologies.

For the three months ended October 31, 2020, the increase in marketing and sales expenses was primarily due to an increase of \$336 million in employee-related costs and amortization of deferred commissions, an increase in amortization of purchased intangible assets of \$5 million and allocated overhead partially offset by a decrease of \$7 million in stock-based expense and a reduction in employee travel and expenses. For the nine months ended October 31, 2020, the increase in marketing and sales expenses was primarily due to an increase of \$1.2 billion in employee-related costs and amortization of deferred commissions, an increase of \$93 million in stock-based expenses, an increase in amortization of purchased intangible assets of \$102 million, and allocated overhead partially offset by a reduction in employee travel and expenses. Marketing and sales expenses for the nine months ended October 31, 2020 were also negatively impacted by the one-time partial minimum commission guarantee offered to our direct sales force and the cancellation of our in-person events. Our marketing and sales headcount increased by 13 percent since October 31, 2019, primarily attributable to hiring additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base. We expect that marketing and sales expenses will increase in absolute dollars and may increase as a percentage of revenues in future periods as we continue to hire additional sales personnel.

For the three and nine months ended October 31, 2020, the increase in general and administrative expenses was primarily due to an increase in employee-related costs. General and administrative expenses for the nine months ended October 31, 2020 were also negatively impacted by our donations to members of our ecosystem and community, including the donation of personal protective equipment. Our general and administrative headcount increased by 14 percent since October 31, 2019 as we added personnel to support our growth. While not material to date, we may experience increasing credit loss risks from accounts receivable in future periods depending on the duration or degree of economic slowdown caused by the COVID-19 pandemic, and our actual experience in the future may differ from our past experiences or current assessments.

For the nine months ended October 31, 2019 we incurred a one-time, non-cash operating expense charge of \$166 million, as a result of the June 2019 Salesforce.org business combination and effective settlement of all existing agreements.

Other income and expense.

(in millions)	Three Months Ended October 31,		Variance
	2020	2019	Dollars
Gains on strategic investments, net	\$ 1,036	\$ 6	\$ 1,030
Other expense	(10)	(7)	(3)

(in millions)	Nine Months Ended October 31,		Variance
	2020	2019	Dollars
Gains on strategic investments, net	\$ 1,910	\$ 396	\$ 1,514
Other expense	(36)	(19)	(17)

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 the three and nine months ended October 31, 2020 were primarily driven by unrealized gains recognized on publicly traded equity securities of \$1.0 billion and \$1.6 billion, respectively.

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 \$29 million and \$32 million for the three months ended October 31, 2020 and 2019, respectively and \$87 million and \$101 million for the nine months ended October 31, 2020 and 2019, respectively. Investment income decreased \$13 million and \$23 million in the three and nine months ended October 31, 2020, respectively, compared to the same periods a year ago due to lower interest rates across our portfolio and was modestly offset by larger cash equivalents and marketable securities balances.

Benefit from (provision for) income taxes.

(in millions)	Three Months Ended October 31,		Variance
	2020	2019	Dollars
Provision for income taxes	\$ (169)	\$ (173)	\$ 4
Effective tax rate	14 %	270 %	

(in millions)	Nine Months Ended October 31,		Variance
	2020	2019	Dollars
Benefit from (provision for) income taxes	\$ 1,669	\$ (336)	\$ 2,005
Effective tax rate	(78)%	47 %	

We recognized a tax provision of \$169 million on a pretax income of \$1.3 billion for the three months ended October 31, 2020 and a tax benefit of \$1.7 billion on a pretax income of \$2.1 billion for the nine months ended October 31, 2020. In the second quarter of fiscal 2021, we changed our international corporate structure, which included the consolidation of certain intangible property in Ireland resulting in a net tax benefit of \$2.0 billion related to foreign deferred tax assets. We believe that it is more likely than not the deferred tax assets will be realized in Ireland. Our effective tax rate may fluctuate due to changes in our domestic and foreign earnings or material discrete tax items or a combination of these factors resulting from transactions or events, such as acquisitions, changes to our operating structure, or COVID-19.

We recognized a tax provision of \$173 million on a pretax income of \$64 million for the three months ended October 31, 2019. Our tax provision was primarily related to income taxes in profitable jurisdictions outside of the United States. In addition, the impact of acquisitions changed our quarterly earnings and as a result, we recorded higher quarterly income tax

provision. We recognized a tax provision of \$336 million on a pretax income of \$710 million for the nine months ended October 31, 2019.

Liquidity and Capital Resources

At October 31, 2020, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$9.5 billion and accounts receivable of \$3.3 billion. Our 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. Our revolving loan credit agreement, which provides \$1.0 billion in unsecured financing (“Credit Facility”) as of October 31, 2020, also serves as a source of liquidity.

As of October 31, 2020, our remaining performance obligation was \$30.3 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.

Cash from operations could continue to be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic and other risks detailed in Part II, Item 1A titled “Risk Factors.” We believe our existing cash, cash equivalents, marketable securities, cash provided by operating activities, unbilled amounts related to contracted non-cancelable subscription agreements, which is not reflected on the balance sheet, and, if necessary, our borrowing capacity under our Credit Facility 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. For example, in connection with our pending acquisition of Slack, we obtained a commitment for a \$10 billion 364-day senior unsecured bridge loan facility (the “Bridge Facility”), subject to customary conditions. We intend to replace the Bridge Facility and fund the cash portion of the acquisition consideration with new debt and cash on our balance sheet.

Cash Flows

For the three and nine months ended October 31, 2020 and 2019 our cash flows were as follows (in millions):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2020	2019	2020	2019
Net cash provided by operating activities	\$ 339	\$ 298	\$ 2,627	\$ 2,699
Net cash provided by (used in) investing activities	(1,035)	63	(4,065)	(1,515)
Net cash provided by financing activities	368	15	1,018	39

Operating Activities

The net cash provided by operating activities during the nine months ended October 31, 2020 was primarily related to net income of \$3.8 billion, adjusted for non-cash items including \$2.0 billion from a one-time discrete tax item from the recognition of deferred tax assets related to an intra-entity transfer of certain intangible property, \$2.0 billion of depreciation and amortization and \$1.6 billion of expenses related to employee stock plans. Cash provided by operating activities during the nine months ended October 31, 2020 further benefited by the change in accounts receivable, net of \$2.9 billion, offset by change in unearned revenue of \$2.8 billion. Cash provided by operating activities during the nine months ended October 31, 2020 was negatively impacted by changes in billing frequency for new business due to the COVID-19 pandemic. In addition, our operating cash flows were negatively impacted by investments made in our go-to-market efforts, such as the partial minimum commission guarantee provided in the first quarter of fiscal 2021.

The net cash provided by operating activities during the nine months ended October 31, 2019 was primarily related to net income of \$374 million, adjusted for non-cash items such as \$1.5 billion related to depreciation and amortization and \$1.3 billion of expenses related to employee stock plans, and change in accounts receivable, net of \$2.6 billion, offset by change in unearned revenue of \$2.1 billion.

Investing Activities

The net cash used in investing activities during the nine months ended October 31, 2020 was primarily related to cash consideration for the acquisition of Vlocity, net of cash acquired, of approximately \$1.2 billion as well as purchases of

marketable securities of \$4.0 billion and was partially offset by sales and maturities of marketable securities of \$2.0 billion. In addition, we paid approximately \$150 million of cash consideration related to the purchase of 450 Mission, which is reflected in capital expenditures.

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

Financing Activities

Net cash provided by financing activities during the nine months ended October 31, 2020 consisted primarily of \$1.1 billion from proceeds from equity plans.

Net cash provided by financing activities during the nine months ended October 31, 2019 consisted primarily of \$0.6 billion from proceeds from equity plans.

Debt

As of October 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 our purchase of an office building located at 50 Fremont Street in San Francisco (“50 Fremont”), due in 2023 with a total carrying value of \$190 million. We were in compliance with all debt covenants as of October 31, 2020.

We maintain a \$1.0 billion Credit Facility that matures in April 2023. There were no outstanding borrowings under the Credit Facility as of October 31, 2020. 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.

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

Contractual Obligations

Our principal commitments consist of obligations under leases for office space, co-location data center facilities and our development and test data center, as well as leases for computer equipment, software, furniture and fixtures, excluding all secured and unsecured debt. At October 31, 2020, the future non-cancelable minimum payments under these commitments were approximately \$4.0 billion. As of October 31, 2020, we have additional operating leases that have not yet commenced totaling \$1.9 billion. These operating leases include agreements for office facilities to be constructed and will commence between fiscal year 2021 and fiscal year 2025 with lease terms of 3 to 18 years.

During fiscal 2021 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. While we continue to make investments in our infrastructure including offices, information technology and data centers to provide capacity for the growth of our business, our strategy may change related to these investments and we may slow the pace of our investments including in response to the known and potential impacts of COVID-19 on our business.

Other Future Obligations

In December 2020, we entered into a definitive agreement to acquire Slack, a leading channel-based messaging platform. Under the terms of the agreement, Slack shareholders will receive \$26.79 in cash and 0.0776 shares of our common stock for each outstanding Slack share of common stock. The transaction represents an enterprise value of approximately \$27.7 billion based on the closing price of our common stock on November 30, 2020. The agreement also provides for the assumption of outstanding equity awards held by Slack employees. We expect to fund the cash portion of the consideration with a combination of new debt and cash on our balance sheet. In connection with our entry into the definitive agreement for the acquisition, we obtained a commitment for a \$10 billion 364-day senior unsecured bridge loan facility, subject to customary conditions.

In November 2020, we entered into an agreement to acquire Acumen Solutions, Inc. (“Acumen”) for approximately \$570 million in cash, subject to customary purchase price adjustments. The acquisition is expected to close in the first half of fiscal 2022, 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. 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. To this end, we are proud to have signed and to support the Business Roundtable's Statement on the Purpose of a Corporation, which affirms the essential role corporations can play in improving our society, a belief that Salesforce has long held and long incorporated into our business practices, to make sure we are doing well and doing good. In addition, 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 Task Force on Climate-Related Financial Disclosures and of the Sustainability Accounting Standards Board ("SASB") by the end of fiscal 2021.

A summary of the key ESG topics that are most important to our stakeholders and the success of our business, along with key goals for each topic, can be found in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, filed with the Securities and Exchange Commission (the "SEC") on March 5, 2020. We also published our annual Stakeholder Impact Report in May 2020, which includes a table of detailed metrics and indicators that highlights the key goals of our ESG programs, provides year over year trends and references SASB, The Global Reporting Initiative, and the Ten Principles of the United Nations Global Compact.

Our ESG highlights as of and for the quarter ended October 31, 2020 include the following:

- **COVID-19 Response.** We continued to support our employees, our customers, and our communities in response to the COVID-19 pandemic. For example, in the third quarter of fiscal 2021, we launched Work.com for schools to help schools reopen safely, facilitate communication between teachers and families at scale, and support students remotely. We also announced Work.com for vaccines which is intended to help governments and healthcare organizations more safely and efficiently manage vaccine programs at scale.
- **Racial Equality and Justice Task Force.** We continue to make progress on our Racial Equality and Justice Task Force to help drive systemic change in our workplace and community. We invited employees from across the business, as well as leaders of our Black employee resource group, to help guide our vision. Our response focuses on four pillars of "People, Purchasing, Philanthropy and Policy" and our vision and goals have been formalized in a new Racial Equality and Justice V2MOM, which is an internal management tool that incorporates our vision, values, methods, obstacles, and measures.
- **Impact Investing.** In October 2020, we launched our second Salesforce Ventures Impact Fund to continue supporting innovative companies driving social and environmental change. The new \$100 million fund is expected to accelerate the growth of cloud companies addressing some of today's most pressing needs including education and re-skilling, climate action, diversity, equity and inclusion, and providing tech for nonprofits and foundations.
- **Government Affairs.** To promote civic engagement and enable every eligible employee to vote, we have updated our policies to recognize national Election Day in the U.S. as a company holiday for our U.S. employees. Employees in other countries are also provided the day off when their national election takes place during the work week. We also provided employees the opportunity to log Volunteer Time Off for volunteering as non-partisan poll workers on Election Day.
- **Integrated Philanthropy.** Together with the Salesforce Foundation, a 501(c)(3) nonprofit organization, since inception, we have given approximately \$406 million to charitable organizations, logged more than 5.5 million employee volunteer hours around the world and provided more than 51,000 nonprofit and higher education organizations with the use of our service offerings for free or at a discount. In addition, in September, we published our Community Impact Report for 2020, which assesses the social value we are delivering to the social impact sector, illustrates customer outcomes and breaks down our approach in this area.
- **Protecting the Planet.** Salesforce continues to support science-based climate policies and actions.
 - **Policy Advocacy.** In August 2020, Salesforce was recognized by the Climate Group and RE100 as Best Policy Influencer for our efforts in calling for a federal price on carbon, supporting new emissions standards in the state of Virginia, and signing the largest ever UN-backed CEO-led climate advocacy effort to urge governments to incorporate climate action in their economic recovery plans.
 - **Renewable Energy.** We continued to support new efforts to decarbonize regional energy grids through our first international Virtual Power Purchase Agreement ("VPPA") in Australia. This VPPA supports our ambition to achieve our 100 percent renewable energy goal by 2022.
 - **IT.org.** In January 2020, as a founding partner of It.org, and in support of its mission, Salesforce announced our goal to support and mobilize the conservation, restoration, and growth of 100 million trees by the end of 2030. In August, Salesforce supported the launch of IT.org's U.S. chapter, and in September, released its

Tree Tracker in partnership with Plant-for-the-Planet; tracking its progress toward our 100 million tree goal and enabling stakeholders to donate to global projects it is supporting.

While we believe all of these goals align with our long-term growth strategy and financial and operational priorities, they are aspirational and may change, and there is no guarantee or promise that they will be met.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in foreign currency exchange rates, interest rates and equity investment risks. This exposure has increased due to recent financial market movements and changes to our expectations of near-term possible movements caused by the impact of COVID-19 as discussed in more detail below.

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, including emerging 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, including market impacts associated with COVID-19. Changes in foreign currency exchange rates could have an adverse impact on our financial results and cash flows.

In fiscal 2020, we began transitioning away from our 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, is expected to enable 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 the nine months ended October 31, 2020 and 2019, revenues generated in Europe were approximately 21 percent and 20 percent of total revenues, respectively, of which most are recorded in our UK, Germany, France, Italy, Spain and Ireland subsidiaries. Revenues in Europe were minimally impacted in the nine months ended October 31, 2020 compared to the nine months ended October 31, 2019 as a result of fluctuations in the Euro and British Pound Sterling against the USD. 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, Derivatives and Hedging. Accordingly, we record the fair values of these contracts as of the end of our reporting period to our condensed consolidated balance sheets with changes in fair values recorded to our condensed consolidated statements of operations. Given the short duration of the forward contracts, the amount recorded is not significant. Our ultimate realized gain or loss with respect to foreign currency exposures will generally depend on the size and type of cross-currency transactions that we enter into, the currency exchange rates associated with these exposures and changes in those rates, the net realized gain or loss on our foreign currency forward contracts and other factors.

Foreign Currency Translation Risk

Fluctuations in foreign currencies impact the amount of total assets, liabilities, revenues, operating expenses and cash flows that we report for our foreign subsidiaries upon the translation of these amounts into USD. Although the USD fluctuated against certain international currencies over the past several months, the amounts of revenue that we reported in USD for foreign subsidiaries that transact in international currencies were similar to what we would have reported during the nine months ended October 31, 2019 using a constant currency rate. However, fluctuations in USD against certain international currencies over the past several months benefited our remaining performance obligation as of October 31, 2020 compared to what we would have reported as of October 31, 2019 using constant currency rate.

Interest Rate Sensitivity

We had cash, cash equivalents and marketable securities totaling \$9.5 billion as of October 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 due to expected credit losses.

Our fixed-income portfolio is also subject to interest rate risk. An immediate increase or decrease in interest rates of 100 basis points at October 31, 2020 could result in a \$65 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, 2020, we had cash, cash equivalents and marketable securities totaling \$7.9 billion. Changes in interest rates of 100 basis points would have resulted in market value changes of \$38 million.

Market Risk and Market Interest Risk

We deposit our cash with multiple financial institutions.

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

Instrument	Maturity date	Principal Outstanding as of October 31, 2020	Interest Terms	Effective interest rate for the three months ended October 31, 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	191	Fixed	3.75%
Revolving credit facility	April 2023	0	Floating	N/A

The borrowings under our 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 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 October 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 ongoing 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 advance 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. Our strategy includes using proceeds from realized gains recognized on the sales of our existing strategic investments to, in part, fund these new strategic investments.

As of October 31, 2020, our portfolio consisted of investments in over 280 companies, with capital investments ranging from less than \$0.3 million to approximately \$400 million, and 34 investments with carrying values individually equal to or in excess of approximately \$10 million. As of October 31, 2020, we held one publicly traded investment with a carrying value that was individually greater than 35 percent of our total strategic investments, one publicly traded investment with a carrying value that was individually approximately 20 percent of our total strategic investments and one privately held investment individually greater than five percent of our total strategic investments.

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

Investment Type	Capital Invested	Unrealized Gains (Cumulative)	Unrealized Losses (Cumulative)	Carrying Value as of October 31, 2020
Publicly held equity securities	\$ 508	\$ 1,761	\$ (8)	\$ 2,261
Privately held equity securities	1,618	250	(250)	1,618
Total equity securities	\$ 2,126	\$ 2,011	\$ (258)	\$ 3,879

We anticipate additional volatility to our condensed consolidated statements of operations due to changes in market prices, observable price changes and impairments to our investments. These changes could be material based on market conditions and events. While historically our investment portfolio has had a positive impact on our financial results, that may not be true for future periods, particularly in periods of significant market fluctuations that affect our equity securities within our strategic investments portfolio. Volatility in the global market conditions, including recent and ongoing volatility related to the impacts of COVID-19 and related public health measures, may impact our investment portfolio and our financial results may fluctuate from historical results and expectations.

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 enterprise value of the company. As a result, our investment value in a specific company may move by more or less than any change in value of that overall company. An immediate decrease of ten percent in enterprise value of our significant publicly traded and privately held equity securities held as of October 31, 2020, which represents 74 percent of the strategic investment portfolio, could result in a \$273 million reduction in the value of our 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. For example, one of our publicly traded investments with a carrying value of approximately 20 percent is subject to a lock-up period until January 2021. Another of our publicly traded investments, which individually had a carrying value greater than 35 percent of our total strategic investment portfolio, is subject to lock-up agreements until March 2021, for the investment made prior to their IPO and September 2021 for the investment made concurrent with their IPO.

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. The COVID-19 pandemic and its reverberating effects on the global economy have caused disruptions to the industry and to financial markets that are inhibiting and may continue to inhibit the ability of investee companies to complete a liquidity event. In severe cases, our investee companies may no longer be able to operate or could experience reduced profitability, delayed public offerings, reduced ability to raise favorable rounds of financing, or acquisitions at less favorable terms. These outcomes could materially adversely affect our financial position, results of operations, and cash flows.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the 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.

As a result of COVID-19, our employees globally shifted to working from home beginning in March 2020. While pre-existing controls were not specifically designed to operate in our current work-from-home operating environment, we believe that our disclosure controls and procedures can be executed effectively and continue to be effective.

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

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

As a result of COVID-19, and as described above, we took precautionary actions to re-evaluate and refine our financial reporting process to provide reasonable assurance that we could report our financial results accurately and timely. We believe that our internal control over financial reporting can be executed effectively and continues to be effective.

PART II.

ITEM 1. 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, such as the Tableau shareholder derivative action, see Note 14 “Legal Proceedings and Claims” to the condensed consolidated financial statements in Item 1 of Part I.

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 business, financial condition, results of operations, cash flows, other key metrics and the trading price of our common stock.

We organize these risks and uncertainties into the following categories: risks related to our business operations; risks that could affect, or result from, our business strategy and the industry in which we operate; legal and regulatory risks; financial risks; risks related to the ownership of our common stock and general risks that could affect our business.

Risk Factor Summary

Operational and Execution Risks

- The effects of the COVID-19 pandemic and related public health measures on how we and our customers are operating our businesses.
- Any breaches in 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 that cause unauthorized access to a customer’s data, our data or our IT systems, or the blockage or disablement of authorized access to our services.
- Any defects or disruptions in our services that diminish demand for our services.
- 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.
- An inability to realize the expected business or financial benefits of company and technology acquisitions and investments.
- The completion of the proposed acquisition of Slack Technologies, Inc. in the anticipated timeframe and failure to realize the anticipated benefits of the acquisition.
- Strain on our personnel resources and infrastructure from supporting our existing and growing customer base or an inability to scale our operations and increase productivity.
- Customers’ non-renewal of or reduction in subscriptions at the time of renewal, or our inability to accurately predict subscription renewals and upgrade rates.
- Disruptions caused by periodic changes to our sales organization.
- Dependency of our services on the development and maintenance of the infrastructure of the Internet by third parties.
- Exposure to risks inherent in international operations from sales to customers outside the United States.
- A more time-consuming and expensive sales cycle, pricing pressure, and implementation and configuration challenges as we target more of our sales efforts at larger enterprise customers.
- Any loss of key members of our management team or development and operations personnel, or inability to attract and retain employees necessary to support our operations and growth.

- Any failure in our delivery of high-quality technical support services.

Strategic and Industry Risks

- A failure by us to expand our services beyond the CRM market and to develop and integrate our existing services in order to keep pace with technological developments.
- An inability to maintain and enhance our brands.
- Partial or complete loss of invested capital, or significant changes in the fair value, of our strategic investment portfolio.
- Any discontinuance by third-party developers and providers in embracing our technology delivery model and enterprise cloud computing services, or customers asking us for warranties for third-party applications, integrations, data and content.
- An inability to compete effectively in the intensely competitive market in which we participate.
- Social and ethical issues, including the use of AI in our offerings.

Legal and Regulatory Risks

- Privacy concerns and laws such as the California Consumer Privacy Act and the EU's General Data Protection Regulation, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations.
- Evolving industry-specific regulation and other requirements and standards and unfavorable industry-specific laws, regulations, interpretive positions or standards.
- Lawsuits against us by third parties for various claims, including alleged infringement of proprietary rights.
- Any failure to protect our intellectual property rights.
- Risks related to government contracts and related procurement regulations.
- Governmental export and import controls that could impair our ability to compete in international markets and may subject us to liability.

Financial Risks

- 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.
- Significant fluctuations in our rate of anticipated growth and any failure to balance our expenses with our revenue forecasts.
- Unanticipated changes in our effective tax rate and additional tax liabilities and global tax developments.
- Fluctuations in currency exchange rates, particularly the U.S. Dollar, Euro and British Pound Sterling.
- Our debt service obligations, lease commitments and other contractual obligations.
- Accounting pronouncements and changes in other financial and non-financial reporting standards.

Risks Related to Owning Our Common Stock

- Fluctuations in our quarterly results.
- Volatility in the market price of our common stock and associated litigation.
- Provisions in our certificate of incorporation and bylaws and Delaware law that might discourage, delay or prevent a change of control of our company or changes in our management.

General Risks

- Volatile and significantly weakened global economic conditions.
- The occurrence of natural disasters and other events beyond our control.
- The long-term impact on our business from climate change.

Operational and Execution Risks

The effects of the COVID-19 pandemic and related public health measures have materially affected how we and our customers are operating our businesses, and have materially affected our operating results and cash flows; the duration and extent to which this will impact our future results of operations and cash flows remains uncertain.

The COVID-19 pandemic and related public health measures have materially affected how we and our customers are operating our businesses, and have materially affected our operating results and cash flows; the duration and extent to which

this will impact our future results remain uncertain. In response to the COVID-19 pandemic, we have cancelled or delayed some customer events, and shifted many of them, including Dreamforce, World Tours, Connections, Tableau Conference, Basecamps and Salesforce.org's Higher Ed Summit, to virtual-only experiences. We may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee and industry events in the future. Our shift to creating virtual customer, employee and industry events may not be successful, and we may not be able to showcase our products as well as, or generate the same customer interest, opportunities and leads through virtual events as, we have historically done through in-person events. If we attempt to re-introduce large in-person events, we may not be able to do so successfully and our customers may not be able or willing to attend them.

We also temporarily closed all Salesforce offices globally. This global work-from-home operating environment has caused strain for, and has adversely impacted productivity of, certain employees, and these conditions may persist and harm our business, including our future sales and operating results. As long as the pandemic continues, our employees may be exposed to health risks. Our efforts to re-open our offices safely may not be successful; could expose our employees, customers and partners to health risks and us to associated liability; and will involve additional financial burdens. The COVID-19 pandemic may have long-term effects on the nature of the office environment and remote working. This may present risks for our real estate portfolio and strategy and may present operational and workplace culture challenges that may adversely affect our business.

Moreover, the conditions caused by COVID-19 initially affected customer IT spending and may in the future adversely affect our customers' ability or willingness to purchase our enterprise cloud computing services. These conditions delayed and may in the future delay prospective customers' purchasing decisions, and reduced and may in the future reduce the value or duration of our customers' subscription contracts, and affect attrition rates, all of which could adversely affect our future sales and operating results.

Our operations have been negatively affected by a range of external factors related to the COVID-19 pandemic that are not within our control. Authorities throughout the world have implemented numerous preventative measures to contain or mitigate further spread of the virus, such as travel bans and restrictions, limitations on business activity, quarantines, work-from-home directives and shelter-in-place orders. These public health measures have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide, which have impacted our business and results of operations and cash flows. For example, these measures and related economic effects contributed to certain customers' reluctance or inability to submit payments to us (as well as changes in billing frequency), and adversely impacted the effectiveness of outsourced service providers we use to collect payments, and these conditions may persist or worsen. The extent and duration of these measures could also impact our ability to address cybersecurity incidents, have resulted in increased internet demand which could cause access issues, could affect our ability to develop and support products and services, and could cause issues with access to data centers. As we continue to monitor the situation and public health guidance, we may adjust our current policies and practices, and existing and new precautionary measures could negatively affect our operations.

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, future spikes of COVID-19 infections resulting in additional preventative measures to contain or mitigate the spread of the virus, severity of the economic decline attributable to the pandemic and timing and nature of a potential economic recovery, impact on our customers and our sales cycles, our ability to generate new business leads, impact on our customer, employee and industry events, and effect on our vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which the pandemic may impact our financial condition or results of operations, including our long-range plan, is uncertain. Due to our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. In addition, uncertainty regarding the impact of COVID-19 on our future operating results and financial condition may result in our taking cost-cutting measures, reducing the level of our capital investments and delaying or canceling the implementation of strategic initiatives, any of which may negatively impact our business and reputation. If the COVID-19 pandemic has a substantial impact on our employees', partners' or customers' business and productivity, our results of operations and overall financial performance may be harmed. The global macroeconomic effects of the COVID-19 pandemic and related impacts on our customers' business operations and their demand for our products and services may persist for an indefinite period, even after the COVID-19 pandemic has subsided. In addition, the effects of the COVID-19 pandemic may heighten many of the other risks described in this "Risk Factors" section.

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, health and other personal 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 or IT systems, or our data or our IT systems;
- efforts by individuals or groups of hackers and sophisticated organizations, such as state-sponsored organizations or nation-states, to launch coordinated attacks, including distributed denial of service attacks;
- third-party attempts to abuse our marketing, advertising or social platforms to impersonate other people or organizations and disseminate information that is false or misleading;
- 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 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.

In addition, the changes in our work environment as a result of the COVID-19 pandemic could adversely affect our security measures, as well as our ability to address and respond to incidents quickly. 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 or that a material breach will not occur. 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, and could result 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, regulatory 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 be the result of employee, contractor or other third party acts or inaction, and could negatively affect our brand and reputation. Additionally, such defects could 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 this disruption did not materially affect our business, reputation or financial results, but there is no assurance such circumstances could not recur with a material adverse effect on our business.

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 COVID-19 pandemic has and may continue to 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 and reputation 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 (including shelter-in-place or similar orders), 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 pandemic (including the COVID-19 pandemic) 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 reputation and 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.

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. We continue to evaluate such opportunities and expect to continue to make such investments and acquisitions in the future such as the pending acquisition of Slack Technologies, Inc. (“Slack”), which was signed in December 2020 and is expected to close in the second quarter of fiscal 2022.

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 integrating acquired operations, technologies, services, platforms and personnel;
- the inability to obtain (or a material delay in obtaining) the regulatory approvals, including from antitrust or other similar regulatory authorities, 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 global hold separate order, issued in connection with our acquisition of Tableau by the United Kingdom Competition & Markets Authority in fiscal 2020, which order was lifted 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;
- known and potential unknown liabilities associated with the acquired businesses, including due to litigation;
- 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 (including a potential one-time income tax payment in connection with the integration of ClickSoftware and other acquired Israeli entities).

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.

Our ability to acquire other businesses or technologies, make strategic investments or integrate acquired businesses effectively may be impaired by the effects of the COVID-19 pandemic, government actions in light of the pandemic, trade tensions and increased global scrutiny of foreign investments and acquisitions and investments in the technology sector. For example, a number of countries, including the U.S. and countries in Europe and the Asia-Pacific region, are considering or have adopted restrictions of varying kinds on transactions involving foreign investments, whether in response to the COVID-19 pandemic or otherwise. Antitrust authorities in a number of countries have also reviewed acquisitions and investments in the technology industry with increased scrutiny. Governments may continue to adopt or tighten restrictions of this nature, some of which may apply to acquisitions, investments or integrations of businesses by us, and such restrictions or government actions could negatively impact our business and financial results.

We may not complete the acquisition of Slack within the time frame we anticipate or at all.

The completion of the acquisition of Slack is subject to a number of conditions, including receipt of Slack stockholder approval and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and receipt of other approvals, consents or clearances under specified antitrust and foreign investment laws. The failure to satisfy all of the required conditions could delay the completion of the acquisition for a significant period of time or prevent it from occurring at all. A delay in completing the acquisition could cause us to realize some or all of the benefits later than we otherwise expect to realize them if the acquisition is successfully completed within the anticipated timeframe, which could result in additional transaction costs or in other negative effects associated with uncertainty about the completion of the acquisition.

We may fail to realize all of the anticipated benefits of the Slack acquisition, and the merger or those benefits may take longer to realize than expected.

We believe that there are significant benefits and synergies that may be realized through leveraging the products, scale and combined enterprise customer bases of Salesforce and Slack. However, the efforts to realize these benefits and synergies will be a complex process and may disrupt both companies' existing operations if not implemented in a timely and efficient manner. The full benefits of the acquisition, including the anticipated sales or growth opportunities, may not be realized as expected or may not be achieved within the anticipated time frame, or at all. Failure to achieve the anticipated benefits of the acquisition could adversely affect our results of operations or cash flows, cause dilution to our earnings per share, decrease or delay any accretive effect of the acquisition and negatively impact the price of our common stock.

In addition, Salesforce and Slack will be required to devote significant attention and resources prior to closing to prepare for the post-closing integration and operation of the combined company, and we will be required post-closing to devote significant attention and resources to successfully align our business practices and operations. This process may disrupt the businesses and, if ineffective, would limit the anticipated benefits of the acquisition.

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. Whether due to the effects of and financial burdens associated with the COVID-19 pandemic or otherwise, we may not be able to make these investments as quickly or effectively as necessary to successfully scale our operations.

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. Additionally, changes in our work environment and workforce as a result of the COVID-19 pandemic could adversely affect our operations. The COVID-19 pandemic may have long-term effects on the nature of the office environment and remote working. 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.

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 and current remaining performance obligation 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, including as a result of the COVID-19 pandemic.

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.

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. Such sales organization changes have in some periods resulted in, and may in the future result in, a 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.

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, 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. Additionally, the COVID-19 pandemic has also led to quarantines, shelter in place orders, and work from home directives, all of which have increased demands for internet access and may create access challenges. These actions could potentially limit or interrupt access to our services from certain countries or Internet service providers, impede our growth, productivity and operational effectiveness, result in the loss of potential or existing customers and harm our business.

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:

- natural disasters, acts of war, terrorism, and actual or threatened public health emergencies, including the ongoing COVID-19 pandemic and related public health measures and resulting changes to laws and regulations, including changes oriented to protecting local businesses or restricting the movement of our or our customers' employees;
- 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, customs, anti-boycott, sanctions and embargoes, 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, including the evolving relations between the United States and China;
- 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; 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.

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. Moreover, restrictions in place in response to the COVID-19 pandemic have disrupted our operations, and our customers' operations and businesses, and this has adversely affected, and may continue to adversely affect, our sales efforts.

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 us, 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, 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 or prospective customers.

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. Our executive officers, key management, development or operations personnel could terminate their employment with us at any time. The loss of one or more of our key employees or groups of employees 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 are also committed to building a diverse workforce. We have experienced significant competition in talent recruitment and retention, and may not in the future be successful in our talent recruitment and retention goals. 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, including restrictions imposed in response to the COVID-19 pandemic. 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, equality 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. These difficulties may

be further amplified by work-from-home requirements imposed and other workforce actions taken in response to the COVID-19 pandemic. 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. Outsourced provision of technical support may be suddenly and adversely impacted by unforeseen events, for example, as occurred when certain business process outsourced service providers were delayed in effectively servicing our customers due to conditions related to the COVID-19 pandemic. 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.

Strategic and Industry Risks

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

We derive a significant portion of our revenue from subscriptions to our CRM enterprise cloud computing application services, and we expect this will continue for the foreseeable future. Our efforts to expand our services beyond the CRM market may not succeed and may reduce our revenue growth rate. In addition, the markets for certain of our offerings, including Work.com, Customer 360 Truth, 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 product and 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. Additionally, changes to our work environment and workforce as a result of the COVID-19 pandemic could adversely affect our ability to timely develop enhancements to and new features for existing or new services. Our efforts to quickly introduce new offerings designed to help our customers respond to the COVID-19 pandemic, including our Work.com offering, may not be successful.

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.

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

We believe that the brand identities we have developed including associations with 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.

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.

The rapid spread of COVID-19 and its reverberating effects on the global economy have caused disruptions to our industry, the industries in which our portfolio companies operate and to financial markets. These disruptions are inhibiting and may continue to inhibit the ability of our portfolio companies to meet their performance targets, raise fundraising rounds, or complete a liquidity event. In some cases, our portfolio companies may no longer be able to operate or could experience reduced revenues or profitability, increased customer attrition, delayed, cancelled or unsuccessful public offerings, reduced ability to raise additional rounds of financing, reduced acquisition offers or acquisition offers on unfavorable terms, reduced valuations in both private and public markets, or insolvency and bankruptcy. These outcomes could materially adversely affect the Company's financial position, results of operations, and cash flows.

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 condensed consolidated statement of operations. As a result, we may experience additional volatility to our statements of operations due to changes in market prices of our investments in publicly held equity investments and the valuation and timing of observable price changes or impairments of our investments in privately held securities. Our ability to mitigate this volatility in any given period may be impacted by our contractual obligations to hold securities for a set period of time. Volatility in the financial markets, including the impact of the COVID-19 pandemic, 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.

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 or

integrity of the data access, 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.

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, more 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.

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 of our employees or with our customers or potential customers, which has in the past and may in the future impact our ability to attract or retain such customers or other prospective customers. We also may choose not to conduct business with potential customers or discontinue or not expand business with existing customers due to these positions. Further, actions taken by our customers, including

through the use or misuse of our products, may result in reputational harm or possible liability. For example, we have been subject to allegations in legal proceedings that we should be liable for the use of certain of our products by third parties. Although we believe that such claims lack merit, such claims could cause reputational harm to our brand or result in liability. 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 harm our reputation or brand and could adversely impact our relationships with our customers.

Legal and Regulatory Risks

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 penalties, fines and lawsuits related to 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, on July 16, 2020, the Court of Justice of the European Union (“CJEU”) invalidated the EU-US Privacy Shield Framework, one of the mechanisms that allowed companies, including Salesforce, to transfer personal data from the European Economic Area (“EEA”) to the United States. In addition, the CJEU commented that companies relying on another such mechanism, the European Commission’s Standard Contractual Clauses, should assess on a case-by-case basis whether the law of the country of destination ensures adequate protection of personal data transferred under EU law, by providing, where necessary, additional safeguards to those offered by those clauses. Salesforce relies upon Binding Corporate Rules, a third mechanism, which provides additional safeguards with respect to government requests for EU personal data, as well as the European Commission’s Standard Contractual Clauses to transfer EU personal data internationally. Depending on how the CJEU’s decision is enforced, the cost and complexity of providing our services in certain markets may increase. Certain countries outside of the EEA (e.g., Russia, China) have also 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, in particular where customers request specific warranties and unlimited indemnity for non-compliance with privacy laws, 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. In addition, we have seen a trend towards the private enforcement of data protection obligations, including through private actions for alleged non-compliance, which could harm our business and negatively impact our reputation. For example, we were recently made a party to a legal proceeding brought by a Dutch privacy advocacy group on behalf of certain Dutch citizens that claims we violated the GDPR and Dutch Telecommunications Act through the processing and sharing of data in connection with our Audience Studio and Data Studio products. Although we believe that this claim lacks merit, it or similar future claims could cause reputational harm to our brand or result in liability.

Furthermore, the uncertain and shifting regulatory environment and trust climate, particularly in regard to COVID-19-related data processing, may raise concerns regarding data privacy and cybersecurity, which may cause our customers or our customers' customers to resist providing the data necessary to allow our customers to use our services effectively. In addition, new products we develop in connection with changing events, such as in response to the COVID-19 pandemic, may expose us to liability or regulatory risk. 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.

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 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.

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

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

The software and Internet industries are characterized by the existence of a large number of patents, trademarks, trade secrets 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. We have also 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.

In addition, we have in the past been, and may in the future be, sued by third parties who seek to target us for actions taken by our customers, including through the use or misuse of our products. For example, we have been subject to allegations

in legal proceedings that we should be liable for the use of certain of our products by third parties. Although we believe that such claims lack merit, such claims could cause reputational harm to our brand or result in liability.

Our exposure to risks associated with various claims, including claims related to the use of intellectual property as well as securities and related stockholder derivative claims, may be increased as a result of acquisitions of other companies. For example, we are subject to ongoing securities class action litigation and related stockholder derivative claims brought against Tableau that remain outstanding, and as to which we may ultimately be subject to liability or settlement costs. Additionally, 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 acquired companies or technologies. In addition, third parties have made claims in connection with our acquisitions and may do so in the future, and they may also 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 or 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 or settlement 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, including our operating cash flow in a particular period. 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 period.

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. Similar uncertainty applies to our U.S. and international trademark registrations and applications. 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. and elsewhere. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our services are available and legal changes and uncertainty in various countries' intellectual property regimes may result in making conduct that we believe is lawful to be deemed violative of others' rights. 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, our contribution to open source projects, various competition law regimes or the need to obtain licenses from others may require us to license our intellectual property in certain circumstances. 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 from our core business, and harm our business.

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, and termination of any such contract may adversely impact our other existing or prospective government contracts. 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 may subject us to liability if we are not in full compliance with applicable laws.

Our solutions are subject to export and import controls where we conduct our business activities, including the U.S. Commerce Department's Export Administration Regulations, U.S. Customs regulations and various economic and trade sanctions regulations established by the U.S. Treasury Department's Office of Foreign Assets Control. If we fail to comply with applicable trade laws, we and certain of our employees could be subject to substantial civil or criminal penalties, including the possible loss of trade 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 necessary authorizations, including any required licenses, may be time-consuming, require expenditure of corporate resources, is not guaranteed, and may result in the delay or loss of sales opportunities or the ability to realize value from certain acquisitions or engagements. Furthermore, U.S. export control laws and economic sanctions may prohibit or limit the transfer of certain products and services to U.S. embargoed or sanctioned countries, governments and parties. 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 trade 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 may adversely affect our business, financial condition and results of operations. Import and export control regulations in the U.S. and other countries are subject to change and uncertainty, including as a result of geopolitical developments, which may be amplified by considerations related to United States election cycles, relations between the United States and China and the effects of the COVID-19 pandemic.

Financial Risks

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 changes in our attrition rate, may not be fully reflected in our results of operations until future periods, including changes resulting from the effects of the COVID-19 pandemic. 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 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 unpredictability of future general economic and financial market conditions (including due to the impact of the COVID-19 pandemic), the pace of change and innovation in enterprise cloud computing services, 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, and unanticipated events, such as the COVID-19 pandemic, may cause us to incur expenses beyond what we anticipated. 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 in some periods, we have not been able to, and may not be able in the future to provide continued operating margin expansion, which could harm our business and cause the market price of our common stock to decline.

Unanticipated changes in our effective tax rate and additional tax liabilities and 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 our 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, local 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 our business operations including as a result of acquisitions. Any resulting increase in our tax obligation or cash taxes paid could adversely affect our cash flows and financial results.

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

As our business continues to grow, increasing our brand recognition and profitability, we may be subject to increased scrutiny and corresponding tax disputes, which may impact our cash flows and financial results. 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 changes related to acquisitions may result in cash tax obligations.

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's, the European Commission's, and certain major jurisdictions' heightened interest in and taxation of companies participating in the digital economy. Governments' responses to the economic impact of COVID-19 may lead to tax rule changes that could materially and adversely affect our cash flows and financial results.

We are exposed to fluctuations in currency exchange rates that have in the past and could in the future 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, including in emerging 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 currency 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 affect our ability to accurately predict our future results and earnings. Additionally, global events, including the sudden and unexpected effects of the COVID-19 pandemic, as well as geopolitical developments, fluctuating commodity prices and trade tariff developments, have caused and may in the future cause 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 impact our financial condition or results of operations.

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

As of October 31, 2020, we had a substantial level of debt, including our 2023 and 2028 Senior Notes ("Senior Notes"), the loan we assumed when we purchased 50 Fremont due June 2023 and lease arrangements. We also have a Credit Facility under which we can draw \$1.0 billion. Additionally, we have significant contractual commitments, such as commitments with infrastructure service providers, which are not reflected on our condensed consolidated balance sheets. In December 2020, we obtained a commitment for a \$10 billion 364-day senior unsecured bridge loan facility (the "Bridge Facility"), subject to customary conditions in connection with the pending acquisition of Slack. We intend to replace the Bridge Facility and fund the cash portion of the acquisition consideration with new debt and cash on our balance sheet.

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, such as recent downturns in connection with the effects of the COVID-19 pandemic.

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, we may seek debt financing to fund acquisitions, as we intend for our pending acquisition of Slack. We can offer no assurance that we can obtain debt financing on terms acceptable to us, if at all.

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 agreement 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 our 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.

Lease accounting guidance requires that we record a liability for operating lease activity on our condensed consolidated balance sheet, which increases both our assets and liabilities and therefore 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.

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 have and, in the future, may continue to 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. Our disclosures on these matters, and standards we set for ourselves or a failure to meet these standards, 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 reputation, business, financial performance, and growth.

By electing to set and share publicly these corporate ESG standards, 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 standards or our failure or perceived failure to meet such standards could adversely affect our business, financial performance, and growth.

Risks Related to Owning our Common Stock

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. Fluctuations have occurred due to known and unknown risks, including the sudden and unanticipated effects of the COVID-19 pandemic. In addition, our fiscal fourth quarter has historically been our strongest quarter for new business and renewals, and 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 has typically in the past been our largest collections and operating cash flow quarter; this trend has been adversely impacted by the effects of the COVID-19 pandemic and related economic downturn and uncertainties.

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

- general economic or geopolitical conditions, which have been significantly adversely impacted as a result of the COVID-19 pandemic, and which are adversely affecting and may continue to adversely affect either our customers' ability or willingness to purchase additional subscriptions or upgrade their services, or delay prospective customers' purchasing decisions, reduce the value of new subscription contracts, or affect attrition rates;
- 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 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 collectability 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;
- variations in the revenue mix of our services and growth rates of our 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, customer preference or other factors;
- changes in payment terms and the timing of customer payments and payment defaults by customers as have been and may continue to be impacted by the effects of the COVID-19 pandemic;
- the seasonality of our customers' businesses, especially our Commerce service offering customers, including retailers and branded manufacturers;
- fluctuations in foreign currency exchange rates such as with respect to the British Pound Sterling and Euro;
- 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, including decisions to guarantee some portion of commissions payments in connection with extraordinary events such as the partial commission guarantee in the fiscal quarter ended April 30, 2020;
- 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 or modification of our existing 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, including for example expenses related to the COVID-19 pandemic;
- 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 multinational corporations, 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 options;
- technical difficulties or interruptions in our services;
- changes in interest rates and our mix of investments, which impact the return on our investments in cash and marketable securities;
- conditions, and particularly sudden changes, in the financial markets, such as the recent volatility caused by the COVID-19 pandemic, 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 or debt issuances, including as consideration in or in conjunction with 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 and acquisition 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.

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, current 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;
- our ability to meet or exceed forward-looking guidance we have given or to meet or exceed the expectations of investors, analysts or others; our ability to give forward-looking guidance consistent with past practices; and changes to or withdrawal of previous guidance or long-range targets, including due to uncertainty in connection with effects of the COVID-19 pandemic;
- 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 and health 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;
- changes to our credit ratings; and
- environmental, social, governance and other issues impacting our reputation.

In addition, if the market for technology stocks or the greater securities market, including debt offerings, 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 such as securities litigation against Tableau that was brought before we acquired that company. Such litigation, whether against Salesforce or an acquired subsidiary, could result in substantial costs and a diversion of management's attention and resources and liability resulting from or the settlement of such litigation could result in material adverse impacts to our operating cash flows or results of operations for a given period.

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.

General Risks

Volatile and significantly weakened global economic conditions have in the past and may in the future 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 significant economic and market downturns in connection with the COVID-19 pandemic, and are likely to experience additional cyclical downturns from time to time in which economic activity is 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, as did the conditions associated with the COVID-19 pandemic, and the full impact of such conditions can be difficult to predict. In addition, geopolitical and domestic political developments, such as existing and potential trade wars and other events beyond our control, can increase levels of political and economic unpredictability globally.

and increase the volatility of global financial markets, as has been the case with the COVID-19 pandemic and relations between the United States and China. Moreover, these conditions have affected and may continue to affect the rate of IT spending; could adversely affect our customers' ability or willingness to attend our events or to purchase our enterprise cloud computing services; have delayed and may delay customer purchasing decisions; have reduced and may in the future reduce the value and duration of customer subscription contracts; and we expect these conditions will adversely affect our customer attrition rates. All of these risks and conditions could materially adversely affect our future sales and operating results.

Natural disasters and other events beyond our control have in the past and may in the future materially adversely affect us.

Natural disasters or other catastrophic events have in the past and may in the future 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 shutoffs or shortages, actual or threatened public health emergencies (including the ongoing COVID-19 pandemic) and other events beyond our control. For example, in response to the COVID-19 pandemic we temporarily closed our offices globally, including our corporate headquarters and are experiencing and expect to continue to experience ongoing effects related to the local and global economic and other effects of this pandemic. 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 personnel, 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, and the adverse effects of any such catastrophic event would be exacerbated if experienced at the same time as another unexpected and adverse event, such as the COVID-19 pandemic. For example, wildfires have resulted in power shut-offs in the San Francisco Bay Area and are likely to occur in the future, and this could adversely affect the work-from-home operations of our employees in the San Francisco Bay Area.

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 and is not guaranteed. Any of our primary locations may be vulnerable to the adverse effects of climate change. For example, our California headquarters have historically experienced, and are projected to continue to experience climate-related events including drought and water scarcity, warmer temperatures, wildfires and air quality impacts and power shut-offs associated with wildfire prevention. Climate-related events, including the increasing frequency of extreme weather events and their impact on critical infrastructure in the U.S. and elsewhere, have the potential to disrupt our business, our third-party suppliers, and the business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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

Index to Exhibits

Exhibit No.	Exhibit Description	Provided Herewith	Incorporated by Reference			
			Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of salesforce.com, inc.		8-K	001-32224	3.1	6/7/2019
3.2	Amended and Restated Bylaws of salesforce.com, inc.		8-K	001-32224	3.2	6/7/2019
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	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 Interactive Data File, formatted in Inline XBRL (included in Exhibit 101).					

SIGNATURES

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

Dated: December 4, 2020

salesforce.com, inc.

By: _____ /s/ Mark J. Hawkins
Mark J. Hawkins
President and
Chief Financial Officer
(Principal Financial Officer)

Dated: December 4, 2020

salesforce.com, inc.

By: _____ /s/ Joe Allanson
Joe Allanson
Executive Vice President,
Chief Accounting Officer
and Corporate Controller
(Principal Accounting Officer)

CERTIFICATION

I, Marc Benioff, certify that:

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

December 4, 2020

/s/ Marc Benioff

Marc Benioff
Chair of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Mark J. Hawkins, certify that:

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

December 4, 2020

/s/ Mark J. Hawkins

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

**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**

Based on my knowledge, I, Marc Benioff, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended October 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

December 4, 2020

/s/ Marc Benioff

Marc Benioff
Chair of the Board of Directors and
Chief Executive Officer
(Principal Executive Officer)

Based on my knowledge, I, Mark J. Hawkins, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of salesforce.com, inc. on Form 10-Q for the period ended October 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of salesforce.com, inc.

December 4, 2020

/s/ Mark J. Hawkins

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