SALESFORCE COM INC
Form 10-Q
August 22, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended July 31, 2008

OR

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

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

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

The Landmark @ One Market, Suite 300

San Francisco, California 94105

(Address of principal executive offices)

Telephone Number (415) 901-7000

(Registrant s telephone number, including area code)

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

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

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

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

As of July 31, 2008, there were approximately 121.0 million shares of the Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed Consolidated Balance Sheets

(in thousands)

	July 31, 2008 (unaudited)	January 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 427,043	$ 279,095
Short-term marketable securities	151,298	171,748
Accounts receivable, net	146,982	220,061
Deferred commissions	35,751	35,679
Deferred income taxes	7,906	7,173
Prepaid expenses and other current assets	33,148	27,055
Total current assets	802,128	740,811
Marketable securities, noncurrent	245,076	218,957
Fixed assets, net	56,643	41,380
Deferred commissions, noncurrent	14,615	16,435
Deferred income taxes, noncurrent	34,989	26,512
Capitalized software, net	24,218	23,061
Goodwill	8,556	8,556
Other assets, net	17,318	13,881
Total assets	$ 1,203,543	$ 1,089,593
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 14,428	$ 7,478
Accrued expenses and other current liabilities	117,180	125,996
Income taxes payable	1,269	3,622
Deferred revenue	466,948	468,821
Total current liabilities	599,825	605,917
Income taxes payable, noncurrent	10,289	8,465
Long-term lease abandonment liability and other	2,986	2,136
Deferred revenue, noncurrent	12,598	12,073
Minority interest	11,869	8,943
Total liabilities	637,567	637,534
Commitments and contingencies		
Stockholders equity:		
Common stock	121	119
Additional paid-in capital	568,078	471,802
Accumulated other comprehensive loss	(4,188)	(2,276)

Retained earnings (deficit)	1,965	(17,586)
Total stockholders equity	565,976	452,059
Total liabilities and stockholders equity	$ 1,203,543	$ 1,089,593

See accompanying Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues:				
Subscription and support	$ 239,720	$ 159,998	$ 465,061	$ 307,688
Professional services and other	23,357	16,581	45,638	31,303
Total revenues	263,077	176,579	510,699	338,991
Cost of revenues (1):				
Subscription and support	30,668	22,375	59,378	42,559
Professional services and other	23,423	19,037	46,011	38,020
Total cost of revenues	54,091	41,412	105,389	80,579
Gross profit	208,986	135,167	405,310	258,412
Operating expenses (1):				
Research and development	24,033	15,096	43,800	29,217
Marketing and sales	130,774	90,216	253,478	174,141
General and administrative	38,081	26,508	76,513	51,593
Total operating expenses	192,888	131,820	373,791	254,951
Income from operations	16,098	3,347	31,519	3,461
Interest, net	6,708	5,615	13,430	10,622
Other income (expense)	(840)	280	(1,603)	449
Income before provision for income taxes and minority interest	21,966	9,242	43,346	14,532
Provision for income taxes	(10,558)	(4,653)	(20,869)	(8,495)
Income before minority interest	11,408	4,589	22,477	6,037
Minority interest in consolidated joint venture	(1,412)	(854)	(2,926)	(1,572)
Net income	$ 9,996	$ 3,735	$ 19,551	$ 4,465
Basic net income per share	$ 0.08	$ 0.03	$ 0.16	$ 0.04
Diluted net income per share	0.08	0.03	0.16	0.04
Weighted-average number of shares used in per share amounts:				
Basic	120,863	116,294	120,321	115,637
Diluted	125,626	121,333	125,091	120,993

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

	Three months ended July 31,	Six months ended July 31,

	2008	2007	2008	2007
Cost of revenues	$ 2,657	$ 1,965	$ 5,332	$ 3,739
Research and development	2,259	1,510	4,358	2,787
Marketing and sales	8,749	6,265	16,870	11,884
General and administrative	5,219	3,691	10,389	7,033
	$ 18,884	$ 13,431	$ 36,949	$ 25,443

See accompanying Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Operating activities				
Net income	$ 9,996	$ 3,735	$ 19,551	$ 4,465
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest in consolidated joint venture	1,412	854	2,926	1,572
Depreciation and amortization	8,870	6,045	17,028	10,893
Amortization of deferred commissions	13,907	9,644	28,630	18,683
Expense related to stock-based awards	18,884	13,431	36,949	25,443
Excess tax benefits from employee stock plans	(11,843)	(8,920)	(24,541)	(15,206)
Changes in assets and liabilities	11,849	9,865	56,364	25,634
Net cash provided by operating activities	53,075	34,654	136,907	71,484
Investing activities				
Changes in marketable securities	(25,118)	(13,735)	(8,578)	(47,947)
Capital expenditures	(13,036)	(10,104)	(37,213)	(26,061)
Net cash used in investing activities	(38,154)	(23,839)	(45,791)	(74,008)
Financing activities				
Proceeds from the exercise of stock options	22,525	15,404	34,010	23,704
Excess tax benefits from employee stock plans	11,843	8,920	24,541	15,206
Principal payments on capital lease obligations		(6)	(5)	(163)
Net cash provided by financing activities	34,368	24,318	58,546	38,747
Effect of exchange rate changes	(794)	324	(1,714)	118
Net increase in cash and cash equivalents	48,495	35,457	147,948	36,341
Cash and cash equivalents at beginning of period	378,548	87,492	279,095	86,608
Cash and cash equivalents at end of period	$ 427,043	$ 122,949	$ 427,043	$ 122,949
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Income taxes, net of tax refunds	$ 1,178	$ 683	$ 5,415	$ 865

See accompanying Notes to Condensed Consolidated Financial Statements.

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Notes to Condensed Consolidated Financial Statements

1. Summary of Business and Significant Accounting Policies

Description of Business

Salesforce.com, inc. (the Company) is the leading provider, based on revenue and market share, of software on demand, according to a July 2007 report by International Data Corporation (IDC). It provides a comprehensive customer relationship management (CRM) service to businesses of all sizes and industries worldwide. The Company began to offer its on-demand application service on a subscription basis in February 2000.

Fiscal Year

The Company s fiscal year ends on January 31. References to fiscal 2009, for example, refer to the fiscal year ending January 31, 2009.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of July 31, 2008 and the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the three and six months ended July 31, 2008 and 2007, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2008 was derived from the audited consolidated financial statements which are included in the Company s Form 10-K for the fiscal year ended January 31, 2008, which was filed with the Securities and Exchange Commission (the SEC) on February 29, 2008. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company s fiscal 2008 Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements. In the opinion of the Company s management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, and include all adjustments necessary for the fair presentation of the Company s statement of financial position as of July 31, 2008, and its results of operations and its cash flows for the three and six months ended July 31, 2008 and 2007. All adjustments are of a normal recurring nature. The results for the three and six months ended July 31, 2008 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2009.

Use of Estimates

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

Significant estimates and assumptions made by management include the determination of the provision for income taxes and the fair value of stock awards issued. Actual results could differ from those estimates.

Principles of Consolidation

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

Additionally, the Company holds a majority interest in Kabushiki Kaisha salesforce.com (Salesforce Japan), a Japanese joint venture. As of July 31, 2008, the Company owned a 65 percent interest in the joint

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Notes to Condensed Consolidated Financial Statements (Continued)

venture. Given the Company s majority ownership interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a minority interest has been recorded for the minority investors interests in the net assets and operations of the joint venture to the extent of the minority investors individual investments. The Company records gains and losses resulting from the change of interest in Salesforce Japan directly to stockholders equity as additional paid-in capital.

Segments

The Company operates in one segment.

Foreign Currency Translation

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

Concentrations of Credit Risk and Significant Customers

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

No customer accounted for more than 5 percent of accounts receivable at July 31, 2008 and January 31, 2008. No customer accounted for 5 percent or more of total revenue during the three and six month periods ended July 31, 2008 and 2007.

As of July 31, 2008 and January 31, 2008, assets located outside the Americas was 14 percent of total assets for both periods. Revenues by geographical region are as follows (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues by geography:				
Americas	$ 188,563	$ 133,343	$ 366,934	$ 257,795
Europe	49,356	29,160	94,520	54,734
Asia Pacific	25,158	14,076	49,245	26,462
	$ 263,077	$ 176,579	$ 510,699	$ 338,991

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, which primarily consists of cash on deposit with banks, is stated at cost, which approximates fair value.

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Notes to Condensed Consolidated Financial Statements (Continued)

Marketable Securities

Management determines the appropriate classification of investments in marketable securities at the time of purchase in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and reevaluates such determination at each balance sheet date. Securities, which are classified as available for sale, are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable such as quoted prices, interest rates and yield curves. Realized gains and losses on the sale of available for sale securities were less than 2 percent of interest income for the three and six months ended July 31, 2008. Declines in value judged to be other-than-temporary on securities available for sale are included as a component of interest income. The cost of securities sold is based on the specific-identification method. Interest on securities classified as available for sale is also included as a component of interest income.

Fair Value Measurement

Effective February 1, 2008, the Company implemented Statement of Financial Accounting Standards No. 157, *Fair Value Measurement*, or SFAS 157, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In accordance with the provisions of FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157,* the Company has elected to defer implementation of SFAS 157 as it relates to its non-financial assets and non-financial liabilities until February 1, 2009. The Company is evaluating the impact, if any, SFAS 157 will have.

The adoption of SFAS 157 to the Company s financial assets and liabilities did not have an impact on the Company s financial results.

SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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

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

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

The following table presents information about the Company s assets that are measured at fair value on a recurring basis as of July 31, 2008 and indicates the fair value hierarchy of the valuation. There were no financial liabilities to be re-measured and reported at fair value:

(in thousands) Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balances as of July 31, 2008
Cash equivalents:				
Time deposits	$ 559	$	$	$ 559
Money market mutual funds	279,452			279,452
Corporate notes and obligations		65,966		65,966
Marketable securities:				
Corporate notes and obligations		233,878		233,878
U.S. treasury securities	3,279			3,279
U.S. agency obligations		159,217		159,217
Total	$ 283,290	$ 459,061	$	$ 742,351

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Notes to Condensed Consolidated Financial Statements (Continued)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), which includes certain changes in equity that is excluded from net income. Primarily, cumulative foreign currency translation adjustments and unrealized gains and losses on marketable securities, net of tax, are included in accumulated other comprehensive loss. Comprehensive income has been reflected in stockholders equity.

Comprehensive income consisted of the following (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Net income	$ 9,996	$ 3,735	$ 19,551	$ 4,465
Translation and other adjustments	(246)	65	(181)	(298)
Unrealized (loss) gain on marketable securities	(299)	(72)	(1,731)	391
Total comprehensive income	$ 9,451	$ 3,728	$ 17,639	$ 4,558

The components of accumulated other comprehensive loss were as follows (in thousands):

	July 31, 2008	January 31, 2008
Foreign currency translation and other adjustments	$ (4,541)	$ (4,132)
Net unrealized gain on marketable securities	353	1,856
	$ (4,188)	$ (2,276)

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income per share is computed giving effect to all potential dilutive common stock, including options and restricted stock units. The dilutive effect of outstanding awards 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 net income per share is as follows (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Numerator:				
Net income	$ 9,996	$ 3,735	$ 19,551	$ 4,465
Denominator:				
Weighted-average shares outstanding for basic earnings per share, net of weighted-average shares of common stock subject to repurchase	120,863	116,294	120,321	115,637
Effect of dilutive securities:				
Employee stock awards and warrants	4,763	5,039	4,770	5,356

Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share	125,626	121,333	125,091	120,993

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Notes to Condensed Consolidated Financial Statements (Continued)

Outstanding unvested common stock purchased by employees is subject to repurchase by the Company and therefore is not included in the calculation of the weighted-average shares outstanding for basic earnings per share. As of July 31, 2008 there was no common stock subject to repurchase.

The following were excluded from the computation of diluted shares outstanding as they would have had an anti-dilutive impact (in thousands). The dilutive securities are excluded when, for example, their exercise prices are greater than the average fair values of the Company s common stock.

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Stock awards	3,256	3,541	3,154	3,557

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities and net operating loss and credit carryforwards using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts considered more likely than not to be realized.

The total income tax benefit recognized in the accompanying condensed consolidated statements of operations related to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, was $13.0 million and $8.5 million for the six months ended July 31, 2008 and 2007, respectively.

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

	Six months ended July 31,	
	2008	2007
U.S. federal taxes at statutory rate	$ 15,171	$ 5,086
State, net of the federal benefit	2,468	946
Foreign losses providing no benefit	2,112	1,563
Foreign taxes in excess of the U.S. statutory rate	1,579	880
Tax credits	(1,119)	(1,378)
Non-deductible expenses	407	535
Other, net	251	863
	$ 20,869	$ 8,495

The Company records liabilities related to uncertain tax positions in accordance with the provisions of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109, *Accounting for Income Taxes*. There were no material changes to the Company s unrecognized tax benefits for the three and six months ended July 31, 2008.

Tax positions for the Company and its subsidiaries are subject to income tax audits by many tax jurisdictions throughout the world. The Internal Revenue Service completed the examination of the Company s

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Notes to Condensed Consolidated Financial Statements (Continued)

federal income tax return for the fiscal year ended January 31, 2006. No adjustment was made as a result of the examination. Management does not believe that it is reasonably possible that the estimates of unrecognized tax benefits will change significantly in the next twelve months. However, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

Revenue Recognition

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing its on-demand application service, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services and other revenue. Other revenues consist primarily of training fees. Because the Company provides its application as a service, the Company follows the provisions of the SEC s Staff Accounting Bulletin No. 104, *Revenue Recognition*, and Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. The Company recognizes revenue when all of the following conditions are met:

There is persuasive evidence of an arrangement;

The service has been provided to the customer;

The collection of the fees is reasonably assured; and

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

The Company s arrangements do not contain general rights of return.

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

Professional services and other revenues, when sold with subscription and support offerings, are accounted for separately when these services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of each deliverable. When accounted for separately, revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. The majority of the Company s consulting contracts are on a time and material basis. Training revenues are recognized after the services are performed. For revenue arrangements with multiple deliverables, such as an arrangement that includes subscription, premier support, consulting or training services, the Company allocates the total amount the customer will pay to the separate units of accounting based on their relative fair values, as determined by the price of the undelivered items when sold separately.

In determining whether the consulting services can be accounted for separately from subscription and support revenues, the Company considers the following factors for each consulting agreement: availability of the consulting services from other vendors, whether objective and reliable evidence for fair value exists for the undelivered elements, the nature of the consulting services, the timing of when the consulting contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer s satisfaction with the consulting work. If a consulting arrangement does not qualify for separate accounting, the Company recognizes the consulting revenue ratably over the remaining term of the subscription contract. Additionally, in these situations, the Company defers only the direct costs of the consulting arrangement and amortizes those costs over the same time period as the consulting revenue is recognized. As of July 31, 2008 and January 31, 2008, the deferred cost on the accompanying condensed consolidated balance sheet totaled $16.5 million and $13.9 million, respectively. These deferred costs are included in prepaid expenses and other current assets and other assets.

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Notes to Condensed Consolidated Financial Statements (Continued)

Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from the Company s subscription service and is recognized as the revenue recognition criteria are met. The Company generally invoices its customers in quarterly or annual installments. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, noncancelable subscription agreements. Deferred revenue also includes certain deferred professional services fees which are recognized as revenue ratably over the subscription contract term. The Company defers the professional service fees in situations where the professional services and subscription contracts are accounted for as a single unit of accounting. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent.

Deferred Commissions

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

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation pursuant to the provisions of SFAS 123R, which requires that all share-based payments, including grants of employee stock options, be recognized as an expense in the statement of operations based on their fair values over the vesting period, which is 4 years.

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

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Volatility	47%	46%	47%	46%
Weighted-average estimated life	4 years	4 years	4 years	4 years
Weighted-average risk-free interest rate	2.82-3.08%	4.46-4.55%	2.24-3.08%	4.41-4.55%
Dividend yield				
Weighted-average fair value per share of grants	$ 27.01	$ 18.24	$ 22.91	$ 18.05

The expected life of options was based on the simplified calculation of expected life, described in the SEC s Staff Accounting Bulletins 107 and 110. Accordingly, the weighted-average estimated life assumption of 4 years was based on the average of the vesting term and the 5 year contractual lives of options awarded. The weighted-average risk free interest rate is based on the rate for a 4 year U.S. government security at the time of the option grant.

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Notes to Condensed Consolidated Financial Statements (Continued)

The Company estimated its future stock price volatility considering both observed option-implied volatilities and historical volatility calculations for both the Company and a group of peer comparable companies. Management believes this is the best estimate of the expected volatility over the 4 year weighted-average expected life of its option grants.

During the three months ended July 31, 2008 and 2007, the Company capitalized $504,000 and $606,000, respectively, of stock-based expenses related to capitalized internal-use software development and deferred professional services costs and $1.0 million and $1.2 million for the six months ended July 31, 2008 and 2007, respectively.

During the six months ended July 31, 2008, the Company recognized stock-based expense of $36.9 million. As of July 31, 2008, the aggregate stock compensation remaining to be amortized to costs and expenses was $229.4 million. The Company expects this stock compensation balance to be amortized as follows: $46.6 million during the remaining six months of fiscal 2009; $83.7 million during fiscal 2010; $61.8 million during fiscal 2011; $34.9 million during fiscal 2012; and $2.4 million during fiscal 2013. The expected amortization reflects only outstanding stock awards as of July 31, 2008 and assumes no forfeiture activity.

The Company grants stock options and restricted stock units to employees throughout the world. In certain foreign jurisdictions, the Company incurs a payroll or social tax cost when its employees exercise their vested awards. Pursuant to SFAS 123R, the payroll and social tax costs are recognized as an operating expense at the time of the exercise. As of July 31, 2008, the Company would incur as an operating expense in excess of $5.0 million for these taxes if all vested awards held by employees in these foreign jurisdictions were exercised. This amount is based on the number of vested awards held and the market price of the Company s common stock. The timing of when employees in these foreign jurisdictions exercise their vested awards could materially affect the Company s future results of operations in a particular period.

Warranties and Indemnification

The Company s on-demand application service is typically warranted to perform in a manner consistent with general industry standards that are reasonably applicable and materially in accordance with the Company s online help documentation under normal use and circumstances.

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

The Company has entered into service level agreements with a small number of its customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits or terminate their agreements in the event that the Company fails to meet those levels. As of July 31, 2008 and January 31, 2008, the reserve balance was approximately $0.4 million, respectively.

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.

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Notes to Condensed Consolidated Financial Statements (Continued)

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised), *Business Combinations*. This standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited and would be applicable for business combinations after the adoption date.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 or* SFAS 160. The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The Company is currently evaluating the impact of the pending adoption of SFAS 160 on its consolidated financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, or SFAS 161. This Standard enhances the disclosure requirements for derivative instruments and hedging activities. This Standard is effective January 1, 2009. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS 161 will not affect the Company s financial condition, results of operations or cash flows.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for the Company beginning February 1, 2009. The Company is currently evaluating the potential impact of the adoption of FSP 142-3 on its consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements (Continued)

2. Balance Sheet Accounts

Marketable Securities

At July 31, 2008, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 233,836	$ 788	$ (746)	$ 233,878
U.S. treasury securities	3,258	21		3,279
U.S. agency obligations	158,927	646	(356)	159,217
	$ 396,021	$ 1,455	$ (1,102)	$ 396,374

At January 31, 2008, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 276,866	$ 2,328	$ (414)	$ 278,780
U.S. treasury securities	9,483	53		9,536
U.S. agency obligations	101,094	1,296	(1)	102,389
	$ 387,443	$ 3,677	$ (415)	$ 390,705

	July 31, 2008	January 31, 2008
Recorded as follows (in thousands):		
Short-term (due in one year or less)	$ 151,298	$ 171,748
Long-term (due between one and 3 years)	245,076	218,957
	$ 396,374	$ 390,705

At July 31, 2008, the following investments were in an unrealized loss position (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	$ 58,375	$ (503)	$ 16,943	$ (243)	$ 75,318	$ (746)
U.S. agency obligations	70,632	(356)			70,632	(356)

$ 129,007	$ (859)	$ 16,943	$ (243)	$ 145,950	$ (1,102)

The unrealized loss for each of these fixed rate investments ranged from less than $1,000 to $204,000. The Company has the ability and intent to hold these investments to maturity and does not believe any of the unrealized losses represent an other-than-temporary impairment based on its evaluation of available evidence as of July 31, 2008. The Company expects to receive the full principal and interest on all of these investment securities.

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Notes to Condensed Consolidated Financial Statements (Continued)

Prepaid Expenses and Other Current Assets

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

	July 31, 2008	January 31, 2008
Deferred professional services costs	$ 11,711	$ 9,376
Prepaid expenses and other current assets	21,437	17,679
	$ 33,148	$ 27,055

Fixed Assets

Fixed assets consisted of the following (in thousands):

	July 31, 2008	January 31, 2008
Computers, equipment and software	$ 48,196	$ 34,197
Furniture and fixtures	10,727	8,354
Leasehold improvements	43,998	36,279
	102,921	78,830
Less accumulated depreciation and amortization	(46,278)	(37,450)
	$ 56,643	$ 41,380

Depreciation and amortization expense totaled $5.9 million and $4.3 million for the three months ended July 31, 2008 and 2007, respectively, and $11.3 million and $7.9 million for the six months ended July 31, 2008 and 2007, respectively.

In February 2008, the Company expanded one of its existing software license agreements to provide additional capacity in its business operations at a cost of $8.0 million. These software licenses are being depreciated over their useful life of 5 years.

Capitalized Software

Capitalized software consisted of the following (in thousands):

	July 31, 2008	January 31, 2008
Capitalized internal-use software development costs, net of accumulated amortization of $7,815 and $4,898, respectively	$ 16,052	$ 13,932
Acquired developed technology, net of accumulated amortization of $9,285 and $6,542, respectively	8,166	9,129

	$ 24,218	$ 23,061

Capitalized internal use software amortization expense totaled $1.6 million and $0.5 million for the three months ended July 31, 2008 and 2007, respectively. Acquired developed technology amortization expense for the three months ended July 31, 2008 and 2007, was $1.4 million and $1.3 million, respectively. Capitalized internal use software amortization expense totaled $2.9 million and $0.9 million for the six months ended July 31, 2008 and 2007, respectively. Acquired developed technology amortization expense for the six months ended July 31, 2008 and 2007, was $2.7 million and $2.3 million, respectively.

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Notes to Condensed Consolidated Financial Statements (Continued)

Other Assets

Other assets consisted of the following (in thousands):

	July 31, 2008	January 31, 2008
Deferred professional services costs, noncurrent portion	$ 4,839	$ 4,546
Long-term deposits	5,711	6,682
Purchased intangible assets, net of accumulated amortization of $931 and $678, respectively	1,255	1,509
Other	5,513	1,144
	$ 17,318	$ 13,881

Accrued Expenses and Other Current Liabilities

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

	July 31, 2008	January 31, 2008
Accrued compensation	$ 53,786	$ 63,327
Accrued other liabilities	25,293	20,988
Accrued other taxes payable	17,782	19,564
Accrued professional costs	4,807	6,980
Accrued rent	15,512	15,137
	$ 117,180	$ 125,996

3. Stockholders Equity

Stock Options Issued to Employees

The 1999 Stock Option Plan (the 1999 Plan) provides for the issuance of incentive and nonstatutory options to employees and nonemployees of the Company. The 1999 Plan provides for grants of immediately exercisable options; however, the Company has the right to repurchase any unvested common stock upon the termination of employment at the original exercise price.

In addition to the 1999 Plan, the Company maintains the 2004 Equity Incentive Plan, the 2004 Employee Stock Purchase Plan and the 2004 Outside Directors Stock Plan. These plans, other than the 2004 Outside Directors Stock Plan, provide for annual automatic increases on February 1 to the shares reserved for issuance based on the lesser of (i) a specific percentage of the total number of shares outstanding at year end; (ii) a fixed number of shares; or (iii) a lesser number of shares set by the Company s Board of Directors, all as specified in the respective plans. On February 1, 2008, 4.0 million additional shares were reserved under the 2004 Equity Incentive Plan pursuant to the automatic increase.

The 2004 Employee Stock Purchase Plan will not be implemented unless and until the Company s Board of Directors authorizes the commencement of one or more offerings under the plan. No offering periods have been authorized to date.

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

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Notes to Condensed Consolidated Financial Statements (Continued)

with merger or acquisition activity. The total number of shares reserved for issuance under the Inducement Plan is 400,000 shares. As of July 31, 2008, there were 224,904 shares of common stock available for grant under the Inducement Plan.

Prior to February 1, 2006, options issued under the Company s stock option plans were generally for periods not to exceed 10 years and were issued at fair value of the shares of common stock on the date of grant as determined by the trading price of such stock on the New York Stock Exchange. After February 1, 2006, options issued to employees are for periods not to exceed 5 years which is the contractual life. Grants made pursuant to the 2004 Equity Incentive Plan and the Inducement Plan do not provide for the immediate exercise of options.

Stock plan activity for the six months ended July 31, 2008 is as follows:

		Options Outstanding		
	Shares Available for Grant	Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2008	6,029,787	13,409,345	$ 27.83	
Increase in options authorized:				
2004 Equity Incentive Plan	4,000,000			
Options granted under all plans	(1,087,510)	1,087,510	$ 58.17	
Restricted stock units granted	(493,085)			
Stock grants to board members for board services and advisory board members	(25,500)			
Exercised		(1,821,365)	$ 18.67	
Restricted stock units cancelled	82,008			
Options cancelled	284,904	(284,904)	$ 38.29	
Balance as of July 31, 2008	8,790,604	12,390,586	$ 31.60	$ 400,056
Vested or expected to vest		11,234,992	$ 30.53	$ 374,756
Exercisable at July 31, 2008		5,480,144	$ 16.31	$ 260,192

The total intrinsic value of the options exercised during the six months ended July 31, 2008 and 2007 were $85.8 million and $68.5 million, respectively.

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

As of July 31, 2008, options to purchase 5,480,144 shares were vested at a weighted average exercise price of $16.31 per share and a remaining weighted-average remaining contractual life of approximately 5 years. The total intrinsic value of these vested options as of July 31, 2008 was $260.2 million.

As of July 31, 2008, no shares issued pursuant to exercises of options issued under the 1999 Plan remained subject to repurchase.

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The following table summarizes information about stock options outstanding as of July 31, 2008:

	Options Outstanding			Options Vested	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
$0.40 to $8.00	2,496,548	5.00	$ 4.24	2,494,634	$ 4.24
$12.77 to $22.64	1,841,666	6.53	16.36	1,304,685	16.05
$23.05 to $33.37	1,794,714	4.57	29.15	750,333	29.07
$34.85 to $39.68	1,818,212	3.15	37.50	637,802	37.28
$39.97 to $52.48	3,163,936	4.43	49.29	292,690	41.93
$52.76 to $68.25	1,255,490	4.61	58.13		
$70.86	20,020	4.90	70.86		
	12,390,586		$ 31.60	5,480,144	$ 16.31

Restricted stock unit activity for the six months ended July 31, 2008 is as follows:

	Restricted Stock Units Outstanding		
	Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2008	1,717,290	$ 0.001	
Granted	493,085	0.001	
Issued	(213,002)	0.001	
Cancelled	(85,132)	0.001	
Balance as of July 31, 2008	1,912,241	$ 0.001	$ 121,982
Expected to vest	1,605,175		$ 102,394

The restricted stock units, which upon vesting entitles the holder to one share of common stock for each restricted stock unit, have an exercise price of $0.001 per share, which is equal to the par value of the Company s common stock, and vest over 4 years. The Company first awarded restricted stock units in May 2006.

Common Stock

The following shares of common stock are available for future issuance at July 31, 2008:

Options outstanding	12,390,586

Restricted stock units outstanding	1,912,241
Stock available for future grant:	
1999 Stock Option Plan	919,080
2004 Equity Incentive Plan	6,915,620
2006 Inducement Equity Incentive Plan	224,904
2004 Employee Stock Purchase Plan	1,000,000
2004 Outside Directors Stock Plan	731,000
	24,093,431

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Notes to Condensed Consolidated Financial Statements (Continued)

4. Commitments and Contingencies

Letters of Credit

As of July 31, 2008, the Company had a total of $8.2 million in letters of credit and bank guarantees outstanding for office space in San Francisco, California, New York City, Singapore, Sweden, United Kingdom, Australia and Switzerland. The letters of credit renew annually and mature at various dates through December 2016.

Leases

The Company leases office space and equipment under noncancelable operating leases with various expiration dates.

As of July 31, 2008, the future minimum lease payments are as follows (in thousands):

	Operating Leases
Fiscal Period:	
Remaining six months in fiscal 2009	$ 43,610
Fiscal 2010	64,731
Fiscal 2011	51,762
Fiscal 2012	35,239
Fiscal 2013	29,516
Thereafter	77,698
Total minimum lease payments	$ 302,556

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

5. Legal Proceedings

The Company is involved in various legal proceedings arising from the normal course of business activities. In management s opinion, resolution of these matters is not expected to have a material adverse impact on the Company s consolidated results of operations, cash flows or its financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect the Company s future results of operations, cash flows or financial position in a particular period.

6. Related-Party Transactions

In January 1999, the salesforce.com/foundation, commonly referred to as the Foundation, a non-profit public charity, was chartered to build philanthropic programs that are particularly focused on youth and technology. The Company s chairman is the chairman of the Foundation. He, one of the Company s officers and one of the Company s board members hold three of the Foundation s eight board seats. The Company is not the primary beneficiary of the Foundation s activities, and accordingly, the Company does not consolidate the Foundation s statement of activities with its financial results.

Since the Foundation s inception, the Company has provided at no charge certain resources to Foundation employees such as office space. The value of these items totals approximately $35,000 per quarter.

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Notes to Condensed Consolidated Financial Statements (Continued)

In addition to the resource sharing with the Foundation, the Company issued the Foundation warrants in August 2002 to purchase 500,000 shares of common stock. Through July 31, 2008, the Foundation exercised all of these warrants. As of July 31, 2008, the Foundation held 208,500 shares of salesforce.com common stock. Additionally, the Company has donated subscriptions to the Company s service to other qualified non-profit organizations. The fair value of these donated subscriptions is in excess of $2.0 million per month. The Company plans to continue providing free subscriptions to qualified non-profit organizations.

7. Subsequent Event

On August 4, 2008, the Company acquired InStranet, Inc., a provider of a knowledge management application for approximately $31.5 million in cash.

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

The following discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our business strategy and our plan to build our business, the expenses associated with our data center capacity, our anticipated growth, trends in our business, new application service features, our strategy of acquiring or making investments in complementary companies, services and technologies, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the potential impact of any future litigation, the potential availability of additional tax assets in the future and related matters, the impact of expensing stock options, the sufficiency of our capital resources, and our strategy to become a platform player for on-demand applications, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as expects, anticipates, projects, intends, plans, believes, estimates, variations of such words, and similar expressions are also intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified below, under Risk Factors and elsewhere in this report, for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

We are the leading provider, based on revenues and market share, of software on demand, according to a July 2007 report by IDC. We provide a comprehensive CRM service to businesses of all sizes and industries worldwide.

We were founded in February 1999 and began offering our on-demand CRM application service in February 2000.

Our objective is to be the leading provider of on-demand application services for businesses worldwide and to be the leading platform on which our customers and partners build on-demand applications. Key elements of our strategy include:

Strengthening our CRM applications and extending into new application areas;

Continuing to lead the industry transformation to software-as-a-service and platform-as-a service;

Pursuing new customers and new territories aggressively;

Deepening relationships within our existing customer base; and

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

We believe the factors that would influence our ability to achieve our objective include our prospective customers willingness to migrate to an on-demand application service; the performance and security of our service; our ability to continue to release, and gain customer acceptance of, new and improved features; successful customer adoption and utilization of our service; acceptance of our service in markets where we have few customers; the emergence of additional competitors in our market and improved product offerings by existing and new competitors; the location of new data centers; third-party developers willingness to develop applications on our platform; and our ability to manage growth.

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To address these factors, we will need to, among other things, continue to add substantial numbers of paying subscriptions, upgrade our customers to versions such as our Unlimited Edition, provide high quality technical support to our customers and encourage the development of third-party applications on our Force.com platform. We also plan to invest for future growth by expanding our data center capacity both domestically and internationally, and we are opening a new data center in Singapore. We also plan to hire additional personnel, particularly in direct sales and other customer-related areas. During the three months ended July 31, 2008, we added 182 employees and our headcount as of July 31, 2008 is 3,046. We also plan to expand our domestic and international selling and marketing activities; add additional distribution channels; increase our research and development activities to upgrade and extend our service offerings and to develop new services and technologies; expand the number of locations around the world where we conduct business; add to our infrastructure to support our growth; and expand our operational systems to manage a growing business. Additionally, in our effort to further strengthen and extend our service offering, we may in the future acquire or make investments in complementary companies, services and technologies. In August 2008, we acquired InStranet, Inc. a provider of a knowledge management application, for approximately $31.5 million in cash.

We expect marketing and sales costs, which were 50 percent of our total revenues for the six months ended July 31, 2008 and 51 percent for the same period a year ago, to continue to represent a substantial portion of total revenues in the future as we seek to add more paying subscribers, build brand awareness and increase the number of marketing events that we sponsor.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2009, for example, refer to the fiscal year ended January 31, 2009.

Sources of Revenues

We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our on-demand application service, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services and other revenues. Other revenues consist primarily of training fees. Subscription and support revenues accounted for approximately 91 percent of our total revenues for the six months ended July 31, 2008. Subscription revenues are driven primarily by the number of paying subscribers of our service and the subscription price of our service. None of our customers accounted for more than 5 percent of our revenues during the six months ended July 31, 2008 and 2007, respectively.

Subscription and support revenues are recognized ratably over the contract terms beginning on the commencement dates of each contract. The typical subscription and support term is 12 to 24 months, although terms range from one to 60 months. Our subscription and support contracts are noncancelable, though customers typically have the right to terminate their contracts for cause if we materially fail to perform. We generally invoice our customers in advance, in annual or quarterly installments, and typical payment terms provide that our customers pay us within 30 days of invoice. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue, or in revenue depending on whether the revenue recognition criteria have been met. In general, we collect our billings in advance of the subscription service period.

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

We recognize revenue in accordance with the provisions of SEC Staff Accounting Bulletin No. 104, *Revenue Recognition,* or SAB 104, and Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue*

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Arrangements with Multiple Deliverables, or EITF 00-21. In determining whether professional services can be accounted for separately from subscription and support revenues, we consider a number of factors, which are described in Critical Accounting Policies and Estimates Revenue Recognition below. As we introduce new service offerings such as Unlimited Edition, Partner Edition and Salesforce Sandbox, we may not be able to establish objective and reliable evidence of fair value for these elements of our sales arrangements. As a result, when the professional services are sold together with subscription services that do not have objective and reliable evidence of fair value, the professional services fees cannot be accounted for separately, and the entire arrangement is accounted for as a single unit of accounting. In such situations, we recognize the entire arrangement fee ratably over the term of the subscription contract. Approximately 9 percent and 8 percent of our total deferred revenue as of July 31, 2008 and January 31, 2008, respectively, related to deferred professional services revenue.

Cost of Revenues and Operating Expenses

Cost of Revenues. Cost of subscription and support revenues primarily consists of expenses related to hosting our service and providing support, the costs of additional data center capacity, depreciation or operating lease expense associated with computer equipment, costs associated with website development activities, allocated overhead and amortization expense associated with capitalized software related to our application service. We allocate overhead such as rent and occupancy charges based on headcount. Employee benefit costs and taxes are allocated based upon a percentage of total compensation expense. As such, general overhead expenses are reflected in each cost of revenue and operating expense category. Cost of professional services and other revenues consists primarily of employee-related costs associated with these services, including stock-based expenses, the cost of subcontractors and allocated overhead. The cost associated with providing professional services is significantly higher as a percentage of revenue than for our on-demand subscription service due to the labor costs associated with providing professional services.

We intend to continue to invest additional resources in our on-demand application service and in our consulting services. The timing of these additional expenses will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues, in a particular quarterly period. For example, we have obtained additional data center capacity on the west and east coasts of the United States and we are opening a data center in Singapore. We expect the annual cost of these resources to be significant.

Research and Development. Research and development expenses consist primarily of salaries and related expenses, including stock-based expenses, the costs of our development and test data center and allocated overhead. We continue to focus our research and development efforts on increasing the functionality and enhancing the ease of use of our on-demand application service. Our proprietary, scalable and secure multi-tenant architecture enables us to provide all of our customers with a service based on a single version of our application. As a result, we do not have to maintain multiple versions, which enables us to have relatively low research and development expenses as compared to traditional enterprise software companies. We expect that in the future, research and development expenses will increase in absolute dollars as we increase the number of personnel and upgrade and extend our service offerings and develop new technologies.

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

We plan to continue to invest heavily in marketing and sales by increasing the number of direct sales personnel in order to add new customers and increase penetration within our existing customer base, expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost.

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

Stock-Based Expenses. Our cost of revenues and operating expenses include stock-based expenses related to option and stock awards to employees and non-employee directors. We account for stock-based expenses pursuant to the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R. SFAS 123R requires that share-based payments, including grants of employee stock options be recognized as an expense in the statement of operations based on their fair values and vesting periods. These charges are significant and we expect them to increase in absolute dollars in the future.

Joint Venture

In December 2000, we established a Japanese joint venture, Kabushiki Kaisha salesforce.com, with SunBridge, Inc., a Japanese corporation, to assist us with our sales efforts in Japan. As of July 31, 2008, we owned a 65 percent interest in the joint venture. Because of this majority interest, we consolidate the venture s financial results, which are reflected in each revenue, cost of revenues and expense category in our consolidated statement of operations. We then record minority interest, which reflects the minority investors interest in the venture s results, exclusive of intercompany charges. Through July 31, 2008, the operating performance and liquidity requirements of the Japanese joint venture have not been significant. While we plan to expand our selling and marketing activities in Japan in order to add new customers, we believe the future operating performance and liquidity requirements of the Japanese joint venture will not be significant.

Critical Accounting Policies and Estimates

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

We believe that of our significant accounting policies, which are described in note 1 to our condensed consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition. We recognize revenue in accordance with the provisions of SAB 104 and EITF 00-21.

We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service has been provided to the customer; (3) the collection of our fees is reasonably assured; and (4) the amount of fees to be paid by the customer is fixed or determinable. Our arrangements do not contain general rights of return.

We recognize subscription revenues ratably over the contract terms beginning on the commencement dates of each contract. Support revenues from customers who purchase our premium support offerings are recognized similarly over the term of the support contract. As part of their subscription agreements, customers generally benefit from new features and functionality with each release at no additional cost. In situations where we have contractually committed to an individual customer specific technology, we defer all of the revenue for that customer until the technology is delivered and accepted. Once delivery occurs, we then recognize the revenue over the remaining contract term.

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Consulting services and training revenues are accounted for separately from subscription and support revenues when these services have value to the customer on a standalone basis and there is objective and reliable evidence of fair value of each deliverable. When accounted for separately, revenues are recognized as the services are rendered for time and material contracts, and when the milestones are achieved and accepted by the customer for fixed price contracts. The majority of our consulting service contracts are on a time and material basis. Training revenues are recognized after the services are performed. For revenue arrangements with multiple deliverables, such as an arrangement that includes subscription, premium support, consulting or training services, we allocate the total amount the customer will pay to the separate units of accounting based on their relative fair values, as determined by the price of the undelivered items when sold separately.

In determining whether the consulting services can be accounted for separately from subscription and support revenues, we consider the following factors for each consulting agreement: availability of the consulting services from other vendors, whether objective and reliable evidence for fair value exists for the undelivered elements, the nature of the consulting services, the timing of when the consulting contract was signed in comparison to the subscription service start date, and the contractual dependence of the subscription service on the customer s satisfaction with the consulting work. If a consulting arrangement does not qualify for separate accounting, we recognize the consulting revenue ratably over the remaining term of the subscription contract. Additionally, in these situations we defer the direct costs of the consulting arrangement and amortize those costs over the same time period as the consulting revenue is recognized. The deferred cost on our condensed consolidated balance sheet totaled $16.5 million at July 31, 2008 and $13.9 million at January 31, 2008. Such amounts are included in prepaid expenses and other current assets and other assets.

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

During the six months ended July 31, 2008, we deferred $26.9 million of commission expenditures and we amortized $28.6 million to sales expense. During the same period a year ago, we deferred $20.9 million of commission expenditures and we amortized $18.7 million to sales expense. Deferred commissions on our condensed consolidated balance sheet totaled $50.4 million at July 31, 2008 and $52.1 million at January 31, 2008.

Accounting for Stock-Based Awards. We account for share-based compensation under SFAS 123R. We recognize the fair value of our stock awards on a straight-line basis over the requisite service period of the award, which is the vesting term of four years.

We recognized stock-based expense of $36.9 million, or 7 percent of revenue, during the six months ended July 31, 2008. The requirement to expense stock-based awards will continue to materially reduce our reported results of operations. As of July 31, 2008, we had an aggregate of $229.4 million of stock compensation remaining to be amortized to expense over the remaining requisite service period of the underlying awards. We currently expect this stock compensation balance to be amortized as follows: $46.6 million during the remaining six months of fiscal 2009; $83.7 million during fiscal 2010; $61.8 million during fiscal 2011, $34.9 million during fiscal 2012 and $2.4 million during fiscal 2013. These amounts reflect only outstanding stock awards as of July 31, 2008 and assume no forfeiture activity. We expect to continue to issue share-based awards to our employees in future periods.

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We grant stock options and restricted stock units to employees throughout the world. In certain foreign jurisdictions, we are obligated for the payroll or social tax costs when employees exercise their vested awards. Pursuant to SFAS 123R, we recognize as an operating expense the payroll and social tax costs at the time of the exercise. As of July 31, 2008, we would incur as an operating expense in excess of $5.0 million for these taxes if all vested awards outstanding by employees in these foreign jurisdictions were exercised. This amount is based on the number of vested awards held and the market price of our common stock as of July 31, 2008. The timing of when employees in these foreign jurisdictions exercise their vested awards could materially affect our future results of operations in a particular period.

The impact of SFAS 123R in the future is dependent upon, among other things, the timing of when we hire additional employees, the effect of long-term incentive strategies involving stock awards in order to continue to attract and retain employees, the total number of stock awards granted, the fair value of the stock awards at the time of grant, changes in estimated forfeiture assumption rates and the tax benefit that we may or may not receive from stock-based expenses. Additionally, the application of SFAS 123R requires the use of an option-pricing model to determine the fair value of stock option awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards.

As of July 31, 2008, there were 1,912,241 restricted stock units outstanding. We plan to continue awarding restricted stock units to our employees in the future. The restricted stock units, which upon vesting entitles the holder to one share of common stock for each restricted stock unit, have an exercise price of $0.001 per share, which is equal to the par value of our common stock, and vest over 4 years. The fair value of the restricted stock units is based on our closing stock price on the date of grant, and compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period.

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

Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from SFAS 123R and the valuation of deferred tax assets and liabilities.

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Results of Operations

The following tables set forth selected data for each of the periods indicated and are in thousands. All data is unaudited.

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues:				
Subscription and support	$ 239,720	$ 159,998	$ 465,061	$ 307,688
Professional services and other	23,357	16,581	45,638	31,303
Total revenues	263,077	176,579	510,699	338,991
Cost of revenues:				
Subscription and support	30,668	22,375	59,378	42,559
Professional services and other	23,423	19,037	46,011	38,020
Total cost of revenues	54,091	41,412	105,389	80,579
Gross profit	208,986	135,167	405,310	258,412
Operating expenses:				
Research and development	24,033	15,096	43,800	29,217
Marketing and sales	130,774	90,216	253,478	174,141
General and administrative	38,081	26,508	76,513	51,593
Total operating expenses	192,888	131,820	373,791	254,951
Income from operations	16,098	3,347	31,519	3,461
Interest, net	6,708	5,615	13,430	10,622
Other income (expense)	(840)	280	(1,603)	449
Income before provision for income taxes and minority interest	21,966	9,242	43,346	14,532
Provision for income taxes	(10,558)	(4,653)	(20,869)	(8,495)
Income before minority interest	11,408	4,589	22,477	6,037
Minority interest in consolidated joint venture	(1,412)	(854)	(2,926)	(1,572)
Net income	$ 9,996	$ 3,735	$ 19,551	$ 4,465
Basic net income per share	$ 0.08	$ 0.03	$ 0.16	$ 0.04
Diluted net income per share	0.08	0.03	0.16	0.04
Weighted-average number of shares used in per share amounts:				
Basic	120,863	116,294	120,321	115,637
Diluted	125,626	121,333	125,091	120,993

In addition to the statement of operations data above:

Cash flow provided by operating activities	$ 53,075	$ 34,654	$ 136,907	$ 71,484

	July 31, 2008	As of January 31, 2008	July 31, 2007
Balance sheet data:			

Cash, cash equivalents and marketable securities	$ 823,417	$ 669,800	$ 497,191
Deferred revenue	479,546	480,894	321,852

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	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues by geography:				
Americas	$ 188,563	$ 133,343	$ 366,934	$ 257,795
Europe	49,356	29,160	94,520	54,734
Asia Pacific	25,158	14,076	49,245	26,462
	$ 263,077	$ 176,579	$ 510,699	$ 338,991

Cost of revenues and operating expenses include the following amounts related to stock-based awards:

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Cost of revenues	$ 2,657	$ 1,965	$ 5,332	$ 3,739
Research and development	2,259	1,510	4,358	2,787
Marketing and sales	8,749	6,265	16,870	11,884
General and administrative	5,219	3,691	10,389	7,033
	$ 18,884	$ 13,431	$ 36,949	$ 25,443

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

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues:				
Subscription and support	91%	91%	91%	91%
Professional services and other	9	9	9	9
Total revenues	100	100	100	100
Cost of revenues:				
Subscription and support	12	12	12	13
Professional services and other	9	11	9	11
Total cost of revenues	21	23	21	24
Gross profit	79	77	79	76
Operating expenses:				
Research and development	9	9	8	9
Marketing and sales	50	51	50	51
General and administrative	14	15	15	15
Total operating expenses	73	75	73	75
Income from operations	6	2	6	1
Interest, net	2	3	2	3
Other income (expense)				
Income before provision for income taxes and minority interest	8	5	8	4

Provision for income taxes	(3)	(2)	(3)	(2)
Income before minority interest	5	3	5	2
Minority interest in consolidated joint venture	(1)	(1)	(1)	(1)
Net income	4%	2%	4%	1%

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	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Revenues by geography:				
Americas	72%	76%	72%	76%
Europe	19	16	19	16
Asia Pacific	9	8	9	8
	100%	100%	100%	100%

	Three months ended July 31,		Six months ended July 31,	
	2008	2007	2008	2007
Stock-based expenses:				
Cost of revenues	1%	1%	1%	1%
Research and development	1	1	1	1
Marketing and sales	3	4	3	4
General and administrative	2	2	2	2
	7%	8%	7%	8%

Overview of the Three Months Ended July 31, 2008

During the three months ended July 31, 2008, net income was $10.0 million. Included in net income was $18.9 million of stock-based expenses. Net income during the same period a year ago was $3.7 million and included $13.4 million of stock-based expenses.

Revenues during the three months ended July 31, 2008 were $263.1 million, an increase of 49 percent over the same period a year ago.

Our business has grown rapidly since we began offering our on-demand application service in February 2000, resulting in significant annual revenue growth since that time. We expect that our total revenue will continue to grow as we add more customers, add more paying subscriptions, sell advanced modules for an additional subscription fee to customers who require additional capabilities, upgrade our customers to versions such as our Unlimited Edition, and add additional distribution channels. However, our revenue growth rate as a percentage may decline over time because of the difficulty in maintaining growth rates as our revenue in absolute dollars increases to higher levels.

Our gross profit during the three months ended July 31, 2008 was $209.0 million, or 79 percent of revenues. Our operating income was $16.1 million or 6 percent of revenues and included stock-based expenses of $18.9 million or 7 percent of revenues. During the same period a year ago, we generated a gross profit of $135.2 million or 77 percent of revenues. For the three months ended July 31, 2007 we had $3.3 million of operating income, which included $13.4 million of stock-based expense or 8 percent of revenues.

During the three months ended July 31, 2008, we invested for future growth in an effort to expand our business. Additionally, we added sales personnel to focus on adding new customers and increasing the sale of subscriptions to existing customers, developers to broaden and enhance our on-demand service and we invested in our infrastructure to meet the demands of an expanding business.

During the three months ended July 31, 2008, we generated $53.1 million of cash from operating activities, as compared to $34.7 million during the same period a year ago. At July 31, 2008, we had cash, cash equivalents and marketable securities of $823.4 million, as compared to $497.2 million at July 31, 2007, accounts receivable of $147.0 million at July 31, 2008, as compared to $114.0 million at July 31, 2007, and deferred revenue, current and noncurrent of $479.5 million at July 31, 2008, as compared to $321.9 million at July 31, 2007.

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Three Months Ended July 31, 2008 and 2007

Revenues.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars	Percent
Subscription and support	$ 239,720	$ 159,998	$ 79,722	50%
Professional services and other	23,357	16,581	6,776	41%
Total revenues	$ 263,077	$ 176,579	$ 86,498	49%

The growth in total revenues for the three months ended July 31, 2008 compared to the same period of fiscal 2008 was primarily attributed to a 50 percent increase in subscription and support revenue as a result of an increased number of paying subscriptions and customers. The increase of 41 percent in professional services and other revenue compared to the same period a year ago was attributed to the higher demand for services from an increased number of paying subscriptions and customers.

Revenues in Europe and Asia Pacific accounted for $74.5 million, or 28 percent of total revenues, for the three months ended July 31, 2008, compared to $43.2 million, or 24 percent of total revenues, for the same period a year ago. The increase in revenues outside of the Americas was the result of our efforts to expand internationally. Additionally, the positive effect of the weaker value of the U.S. dollar relative to foreign currencies also contributed to the increase in total revenues in the three months ended July 31, 2008 as compared to the same period a year ago. The foreign currency impact compared to the same period a year ago was $8.4 million. As part of our overall growth, we expect the percentage of our revenue generated in Europe and Asia Pacific to continue to increase as a larger percentage of our total revenues world wide.

Cost of Revenues.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Subscription and support	$ 30,668	$ 22,375	$ 8,293
Professional services and other	23,423	19,037	4,386
Total cost of revenues	$ 54,091	$ 41,412	$ 12,679
Percent of total revenues	21%	23%	

The increase in absolute dollars was primarily due to an increase of $3.5 million in employee-related costs, an increase of $0.7 million in stock-based expenses, an increase of $2.5 million in service delivery costs, primarily due to incremental data center capacity, an increase of $1.1 million in depreciation and amortization expenses, an increase of $1.7 million in outside subcontractor and other service costs, and an increase of $1.2 million in allocated overhead. The impact of increasing the utilization of existing professional services staff, utilizing more outside subcontractors and not increasing professional services headcount resulted in the cost of professional services and other revenues to approximate revenue for the three months ended July 31, 2008. Professional services headcount did not increase when compared to July 31, 2007, but headcount to support subscription and support services increased by 40 percent when compared to the same period a year ago.

We intend to continue to invest additional resources in our on-demand application service and in our capacity to deliver professional services. The timing of these additional expenses, as well as the costs of our new data center in Asia, will affect our cost of revenues, both in terms of absolute dollars and as a percentage of revenues. Additionally, we expect the cost of professional services and other revenue to continue to approximate the related revenue during the remainder of fiscal 2009.

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Research and Development.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Research and development	$ 24,033	$ 15,096	$ 8,937
Percent of total revenues	9%	9%	

This increase in absolute dollars was primarily due to an increase of $6.4 million in employee-related costs, an increase of $0.7 million in stock-based expenses, and an increase of $1.8 million in allocated overhead. We increased our research and development headcount by 38 percent since July 31, 2007 in order to upgrade and extend our service offerings and develop new services and technologies.

Marketing and Sales.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Marketing and sales	$ 130,774	$ 90,216	$ 40,558
Percent of total revenues	50%	51%	

The increase in absolute dollars was primarily due to an increase of $24.8 million in employee-related costs, $2.5 million in stock-based expenses, $5.2 million in advertising, marketing and event costs, $0.7 million in partner referral fees and $5.9 million in allocated overhead. Our marketing and sales headcount increased by 35 percent since July 31, 2007 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and Administrative.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
General and administrative	$ 38,081	$ 26,508	$ 11,573
Percent of total revenues	14%	15%	

The increase in absolute dollars was primarily due to the increases in employee-related costs of $11.6 million. Our general and administrative head count increased by 38 percent since July 31, 2007 as we added personnel to support our growth.

Operating Income.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Operating income	$ 16,098	$ 3,347	$ 12,751
Percent of total revenues	6%	2%	

We generated operating income of $16.1 million during the three months ended July 31, 2008, compared to operating income of $3.3 million during the same period a year ago. Operating income for the three months ended July 31, 2008 included $18.9 million of stock-based expense compared to $13.4 million for the same period a year ago.

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Interest, Net.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Interest, net	$ 6,708	$ 5,615	$ 1,093
Percent of total revenues	2%	3%	

Interest income consists of investment income on cash and marketable securities balances. Interest income increased by $1.1 million for the three months ended July 31, 2008 compared to the same period a year ago primarily due to increased marketable securities balances resulting from the cash generated by operating activities and the proceeds of stock option activity.

Other Income (expense).

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Other income (expense)	$ (840)	$ 280	$ (1,120)

Other income (expense) primarily consists of foreign currency translation adjustments. Other expense increased due to realized and unrealized losses on foreign currency translations for the three months ended July 31, 2008 compared to the same period a year ago.

Provision for Income Taxes.

(In thousands)	Three Months Ended July 31, 2008	2007	Variance Dollars
Provision for income taxes	$ (10,558)	$ (4,653)	$ (5,905)
Effective tax rate	48%	50%	

We recorded a provision for income taxes of $10.6 million during the three months ended July 31, 2008, compared to $4.7 million during the same period a year ago.

Our effective tax rate for the three months ended July 31, 2008 was 48 percent compared to 50 percent for the same period a year ago. The decrease in our effective tax rate was attributed to a reduced proportion of foreign losses for which no tax benefit can be realized. See Note 1 Summary of Business and Significant Accounting Policies for our reconciliation of income taxes at the statutory federal rate to the provision for income taxes for the six months ended July 31, 2008.

Six Months Ended July 31, 2008 and 2007

Revenues.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars	Percent
Subscription and support	$ 465,061	$ 307,688	$ 157,373	51%
Professional services and other	45,638	31,303	14,335	46%
Total revenues	$ 510,699	$ 338,991	$ 171,708	51%

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Total revenues were $510.7 million for the six months ended July 31, 2008, compared to $339.0 million during the same period a year ago, an increase of $171.8 million, or 51 percent. Subscription and support revenues were $465.1 million, or 91 percent of total revenues, for the six months ended July 31, 2008, compared to $307.7 million, or 91 percent of total revenues, during the same period a year ago. The increase in subscription and support revenues was due primarily to the increase in the number of paying subscriptions. Professional services and other revenues were $45.6 million, or 9 percent of total revenues, for the six months ended July 31, 2008, compared to $31.3 million, or 9 percent of total revenues, for the same period a year ago. The increase in professional services and other revenues was due primarily to the higher demand for services from an increased number of paying subscriptions and customers.

Revenues in Europe and Asia Pacific accounted for $143.8 million, or 28 percent of total revenues, during the six months ended July 31, 2008, compared to $81.2 million, or 24 percent of total revenues, during the same period a year ago, an increase of $62.6 million, or 77 percent. The increase in revenues outside of the Americas was the result of our efforts to expand the number of locations around the world where we conduct business and our international selling and marketing activities.

Cost of Revenues.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Subscription and support	$ 59,378	$ 42,559	$ 16,819
Professional services and other	46,011	38,020	7,991
Total cost of revenues	$ 105,389	$ 80,579	$ 24,810
Percent of total revenues	21%	24%	

Cost of revenues was $105.4 million, or 21 percent of total revenues, during the six months ended July 31, 2008, compared to $80.6 million, or 24 percent of total revenues, during the same period a year ago, an increase of $24.8 million. The increase in absolute dollars was primarily due to an increase of $5.3 million in employee-related costs, primarily all of which was related to our professional services organization, an increase of $1.6 million in stock-based expenses, an increase of $5.4 million in service delivery costs, primarily due to our efforts in increasing data center capacity, an increase of $4.4 million in outside subcontractor and other service costs, $2.5 million in depreciation and amortization expenses and $2.3 million in allocated costs. The impact of increasing the utilization of existing professional service staff, utilizing more outside subcontractors and not increasing professional services headcount resulted in the cost of professional services and other revenues to approximate revenue for the six months ended July 31, 2008.

Research and Development.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Research and development	$ 43,800	$ 29,217	$ 14,583
Percent of total revenues	8%	9%	

Research and development expenses were $43.8 million, or 8 percent of total revenues, during the six months ended July 31, 2008, compared to $29.2 million, or 9 percent of total revenues, during the same period a year ago, an increase of $14.6 million. The increase in absolute dollars was primarily due to an increase of $10.4 million in employee-related costs, $2.6 million in depreciation and amortization expenses and $1.6 million in stock-based expenses. We increased our research and development headcount by 23 percent since January 31, 2008 in order to upgrade and extend our service offerings and develop new services and technologies.

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Marketing and Sales.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Marketing and sales	$ 253,478	$ 174,141	$ 79,337
Percent of total revenues	50%	51%	

Marketing and sales expenses were $253.5 million, or 50 percent of total revenues, during the six months ended July 31, 2008, compared to $174.1 million, or 51 percent of total revenues, during the same period a year ago, an increase of $79.3 million. The increase in absolute dollars was primarily due to an increase of $47.8 million in employee-related costs, $5.0 million in stock-based expenses, $12.9 million in marketing, advertising and event costs and a $10.6 million increase in allocated overhead. Our marketing and sales headcount increased by 19 percent since January 31, 2008 as we hired additional sales personnel to focus on adding new customers and increasing penetration within our existing customer base.

General and Administrative.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
General and administrative	$ 76,513	$ 51,593	$ 24,920
Percent of total revenues	15%	15%	

General and administrative expenses were $76.5 million, or 15 percent of total revenues, during the six months ended July 31, 2008, compared to $51.6 million, or 15 percent of total revenues, during the same period a year ago, an increase of $24.9 million. The increase was primarily due to an increase of $24.9 million in employee-related costs. Our general and administrative headcount increased by 15 percent since January 31, 2008 as we added personnel to support our growth.

Operating Income.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Operating income	$ 31,519	$ 3,461	$ 28,058
Percent of total revenues	6%	1%	

Operating income during the six months ended July 31, 2008 was $31.5 million and included $37.0 million of stock-based expenses related to SFAS 123R. During the same period a year ago, the operating income was $3.5 million. The increase in our revenues were re-invested in an effort to expand our business.

Interest, Net.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Interest, net	$ 13,430	$ 10,622	$ 2,808
Percent of total revenues	2%	3%	

Interest income consists of investment income on cash and marketable securities balances. Interest income was $13.4 million during the six months ended July 31, 2008 and was $10.6 million during the same period a

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year ago. The increase was primarily due to increased marketable securities balances resulting from the cash generated by operating activities, stock option proceeds and increased market interest rates.

Other Income (expense).

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Other income (expense)	$ (1,603)	$ 449	$ (2,052)

Other income (expense) primarily consists of foreign currency translation adjustments. Other expense increased due to realized and unrealized losses on foreign currency translations for the six months ended July 31, 2008 compared to the same period a year ago.

Provision for Income Taxes.

(In thousands)	Six Months Ended July 31, 2008	2007	Variance Dollars
Provision for income taxes	$ (20,869)	$ (8,495)	$ (12,374)
Effective tax rate	48%	58%	

We recorded a provision for income taxes of $20.9 million during the six months ended July 31, 2008, compared to $8.5 million during the same period a year ago.

Our effective tax rate decreased to 48 percent for the six months ended July 31, 2008 compared to 58 percent for the same period a year ago primarily due to a reduced proportion of foreign losses for which no tax benefit can be realized. See Note 1 Summary of Business and Significant Accounting Policies Income Taxes to the Notes to the Condensed Consolidated Financial Statements for our reconciliation of income taxes at the statutory federal rate to the provision for income taxes.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement No. 141 (revised), *Business Combinations*. The standard changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited and would be applicable for business combinations after the adoption date.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* or SFAS 160. The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements including the requirements to classify noncontrolling interests as a component of consolidated stockholders equity, and the elimination of minority interest accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent s controlling ownership interest. SFAS 160 is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. We are currently evaluating the impact of the pending adoption of SFAS 160 on our consolidated financial statements.

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In March 2008, the FASB issued Statement No. 161, *Disclosures About Derivative Instruments and Hedging Activities*, or SFAS 161. This Standard enhances the disclosure requirements for derivative instruments and hedging activities. This Standard is effective January 1, 2009. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities, adoption of SFAS 161 will not affect our financial condition, results of operations or cash flows.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS 142 s entity-specific factors. FSP 142-3 is effective for us beginning February 1, 2009. We are currently evaluating the potential impact of the adoption of FSP 142-3 on our consolidated financial statements.

Liquidity and Capital Resources

As of July 31, 2008, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $823.4 million and accounts receivable of $147.0 million.

Net cash provided by operating activities was $136.9 million during the six months ended July 31, 2008 and $71.5 million during the same period a year ago. The improvement in cash flow was due primarily to the growth in our customer base. Cash provided by operating activities has historically been affected by sales of subscriptions and support and professional services, changes in working capital accounts, particularly increases in accounts receivable and deferred revenue and the timing of commission and bonus payments, and add-backs of non-cash expense items such as depreciation and amortization and the expense associated with stock-based awards.

Net cash used in investing activities was $45.8 million during the six months ended July 31, 2008 and was $74.0 million during the same period a year ago. The net cash used in investing activities during the six months ended July 31, 2008 primarily related to the investment of operating cash balances and capital expenditures associated with leasehold improvements and the purchase of software licenses, computer equipment and furniture and fixtures as we have expanded our infrastructure, number of offices around the world and work force. In February 2008, we expanded one of our existing software license agreements to provide additional capacity in our business operations at a cost of $8.0 million.

Net cash provided by financing activities was $58.5 million during the six months ended July 31, 2008 and $38.7 million during the same period a year ago. During the six months ended July 31, 2008, net cash provided by financing activities consisted of $34.0 million of proceeds from the exercise of employee stock options and $24.5 million of excess tax benefits from employee stock plans.

As of July 31, 2008, we had a total of $8.2 million in letters of credit outstanding and bank guarantees for office space in San Francisco, California, New York City, Singapore, United Kingdom, Australia, Sweden and Switzerland. To date, no amounts have been drawn against the letters of credit, which renew annually and mature at various dates through December 2016.

We do not have any special purpose entities, and other than operating leases, we do not engage in off-balance sheet financing arrangements. Additionally, we currently do not have a bank line of credit. Our principal commitments consist of obligations under leases for office space, co-location facilities for data center capacity, the development and test data center, computer equipment and furniture and fixtures.

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As of July 31, 2008, our future minimum lease payments under noncancelable operating leases are as follows (in thousands):

	Operating Leases
Fiscal Period:	
Remaining six months in fiscal 2009	$ 43,610
Fiscal 2010	64,731
Fiscal 2011	51,762
Fiscal 2012	35,239
Fiscal 2013	29,516
Thereafter	77,698
Total minimum lease payments	$ 302,556

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

We believe our existing cash, cash equivalents and short-term marketable securities and cash provided by operating activities will be sufficient to meet our working capital and capital expenditure needs over the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our marketing and sales activities, the timing and extent of spending to support product development efforts and expansion into new territories, the timing of introductions of new services and enhancements to existing services, the timing of capital expenditures and expenses associated with Web hosting and the continuing market acceptance of our services. To the extent that available funds are insufficient to fund our future activities, we may need to raise additional funds through public or private equity or debt financing.

In August 2008, we acquired InStranet, a provider of a knowledge management application, for approximately $31.5 million in cash. During fiscal 2009, we may enter into additional arrangements to acquire or invest in other businesses, services or technologies. While we believe we have sufficient financial resources to take these actions, we may be required to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange risk

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

Interest rate sensitivity

We had cash, cash equivalents and marketable securities totaling $823.4 million at July 31, 2008. These amounts were invested primarily in money market funds and instruments, corporate notes and bonds, government securities and other debt securities with credit ratings of at least single A or better. The cash, cash equivalents and short-term marketable securities are held for working capital purposes with capital preservation as the primary objective. We do not enter into investments for trading or speculative purposes.

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Our fixed-income portfolio is subject to interest rate risk. An immediate increase or decrease in interest rates of 100-basis points could result in a $3.8 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, 2008, we had cash, cash equivalents and marketable securities totaling $669.8 million. The fixed-income portfolio was also subject to interest rate risk. Changes in interest rates of 100-basis points would have resulted in market value changes of $3.2 million.

ITEM 4. CONTROLS AND PROCEDURES

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 (the Evaluation Date).

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

Based on management s evaluation, our chief executive officer and chief 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 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.

Internal control over financial reporting

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

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in various legal proceedings arising from the normal course of business activities. In our opinion, resolution of these matters is not expected to have a material adverse impact on our consolidated results of operations, cash flows or our financial position. However, depending on the nature and timing of any such dispute, an unfavorable resolution of a matter could materially affect our future results of operations, cash flows or financial position in a particular period.

ITEM 1A. RISK FACTORS

A restated description of the risk factors associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risk factors included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2008. The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition.

Risks Related to Our Business and Industry

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

Because our service is complex and we have incorporated a variety of new computer hardware and software, both developed in-house and acquired from third party vendors, our service may have errors or defects that users identify after they begin using it that could result in unanticipated downtime for our subscribers and harm our reputation and our business. Internet-based services frequently contain undetected errors when first introduced or when new versions or enhancements are released. We have from time to time found defects in our service and new errors in our existing service may be detected in the future. In addition, our customers may use our service in unanticipated ways that may cause a disruption in service for other customers attempting to access their data. Since our customers use our service for important aspects of their business, any errors, defects, disruptions in service or other performance problems with our service could hurt our reputation and may damage our customers businesses. If that occurs, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make warranty claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation.

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

We currently serve our customers from a third-party datacenter hosting facility located on the west coast of the United States and we plan to begin to serve some customers from a third-party datacenter hosting facility located on the east coast of the United States. Additionally, we plan to be serving customers from a new data center hosting facility we will be opening in Singapore during fiscal 2009. Any damage to, or failure of, our systems generally could result in interruptions in our service. As we continue to add capacity in our existing and future data centers, we may move or transfer data. Despite precautions taken during this process, any unsuccessful data transfers may impair the delivery of our service. Further, any damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, our production environment and all of our customers data is currently replicated in near real-time in a separate standby facility located on the east coast. Features

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added through acquisition are temporarily served through alternate facilities. We do not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They are also subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

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

We rely on computer hardware purchased or leased and software licensed from third parties in order to offer our service, including database software from Oracle Corporation. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our service until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could harm our business.

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

Our service involves the storage and transmission of customers proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to our data or our customers data, our reputation could be damaged, our business may suffer and we could incur significant liability. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data or our customers data, which could result in significant legal and financial exposure and a loss of confidence in the security of our service that would harm our future business prospects. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers. In addition, our customers may authorize third party technology providers, whose applications are available through our AppExchange directory, to access their customer data. Because we do not control the transmissions between our customers and third-party AppExchange technology providers, or the processing of such data by third-party AppExchange technology providers, we cannot ensure the complete integrity or security of such transmissions or processing.

If our on-demand application service is not widely accepted in markets where we have few customers, our future growth and success will be limited.

We derive substantially all of our revenue from subscriptions to our on-demand application service, and we expect this will continue for the foreseeable future. As a result, widespread acceptance of our service by companies located outside the United States or in industries where we currently have few customers is critical to our future growth and success. Factors that may affect market acceptance of our service include:

- reluctance by enterprises to migrate to an on-demand application service;
- a limited number of service offerings and risks associated with developing new service offerings;
- the price and performance of our service;
- the level of customization we can offer;

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- the location of our data centers;
- the availability, performance and price of competing products and services;
- reluctance by enterprises to trust third parties to store and manage their internal data; and
- adverse publicity about us, our service or the viability, reliability or security of on-demand application services generally from third party reviews, industry analyst reports and our competitors.

Many of these factors are beyond our control. The inability of our on-demand application service to achieve widespread market acceptance would harm our business.

Efforts we are making to expand our service beyond the CRM market may not succeed and may reduce our revenue growth rate and cause us to incur additional liabilities.

In fiscal 2006 we introduced the AppExchange directory, an on-line marketplace for on-demand applications that run on our Force.com on-demand application service platform. The market for third-party on-demand applications and our platform is new and unproven, and it is uncertain whether the initiative will ever result in significant revenue for us. Among other things, the success of the AppExchange will depend to a substantial extent on the willingness of third-party technology providers to write on-demand applications that run on our platform and the willingness of enterprises, large and small, to purchase and deploy these applications. If third-party technology providers or enterprises do not perceive the benefits of our on-line application marketplace, then the market for this initiative may not develop at all, or it may develop more slowly than we expect, either of which would affect our ability to grow our revenue. Given this new and unproven market, we have limited insight into trends that may develop and affect this initiative. In addition, our customers may not authorize such third-party technology providers to access their customer data. If our customers do authorize such access, we do not warrant the functionality, security and integrity of the data transmission or processing. Further, despite contract provisions designed to protect us, customers may look to us to support and warrant the third-party applications, which may expose us to potential claims, liabilities and obligations for applications we did not develop or sell. Moreover, the AppExchange directory, and other efforts to expand our service beyond the CRM market, may divert management resources from existing operations and require us to commit significant financial resources to an unproven business, which may 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 CRM, enterprise business applications, and development platforms is highly competitive, rapidly evolving and fragmented, and subject to changing technology, shifting customer needs and frequent introductions of new products and services. We compete primarily with vendors of packaged CRM software, whose software is installed by the customer directly and companies offering on-demand CRM applications. We also compete with internally developed applications and face, or expect to face, competition from enterprise software vendors and online service providers who may develop toolsets and products that allow customers to build new applications that run on the customers current infrastructure or as hosted services. Our current principal competitors include:

- enterprise software application vendors including Amdocs Limited, Epicor Software Corporation, IBM Corporation, Infor Global Solutions, Microsoft Corporation, Oracle Corporation, and SAP AG;
- packaged CRM software vendors, some of which offer hosted services, such as CDC Software Corporation, a subsidiary of chinadotcom corporation, Consona Corporation (formerly Made2Manage Systems Inc.), FrontRange Solutions, Inc., Pivotal Corporation, which is owned by, Sage Group plc, and SugarCRM;
- on-demand CRM application service providers such as Oracle Corporation, NetSuite, Inc., RightNow Technologies, Inc., and SAP AG;

enterprise application service providers including IBM Corporation;

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platform and development environment companies, including established vendors, such as IBM Corporation, Oracle Corporation, and Microsoft Corporation; and an array of emerging vendors that have gained traction with the press and analyst communities. In addition, we face competition from businesses that develop their own CRM applications internally, as well as from enterprise software vendors and online service providers who may develop and/or bundle CRM products with their products in the future. For small business customers, we also face competition from companies whose offering is based on Microsoft Outlook and Excel for limited contact management functionality. We also face competition from some of our larger and more established competitors who historically have been packaged CRM software vendors, but who also have directly competitive on-demand CRM application services offerings.

Our professional services organization competes with a broad range of large systems integrators, including Accenture Ltd., BearingPoint, Inc., Deloitte Consulting and IBM Corporation as well as smaller independent consulting firms specializing in CRM implementations. We have close relationships with many of these consulting companies and frequently work cooperatively on projects with them, even as we compete for business in other customer engagements.

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

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

Our quarterly results can fluctuate and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly operating results are likely to fluctuate, and if we fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Moreover, our stock price may be based on expectations of our future performance that may be unrealistic or that may not be met. Some of the important factors that could cause our revenues and operating results to fluctuate from quarter to quarter include:

- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- our ability to retain and increase sales to existing customers, attract new customers and satisfy our customers requirements;
- the renewal rates for our service;
- changes in our pricing policies whether initiated by us or as a result of intense competition;
- the cost, timing and management effort for the introduction of new features to our service;
- the rate of expansion and productivity of our sales force;
- the length of the sales cycle for our service;

new product and service introductions by our competitors;

our success in selling our service to large enterprises;

variations in the revenue mix of editions of our service;

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- technical difficulties or interruptions in our service;
- expenses related to increasing our data center capacity and expanding our data centers domestically and internationally;
- changes in foreign currency exchange rates;
- changes in interest rates;
- changes in the effective tax rates;
- general economic conditions could adversely affect our customers ability or willingness to purchase our application service, which could adversely affect our operating results;
- the timing of additional investments in our on-demand application service and in our consulting service;
- regulatory compliance costs;
- the timing of customer payments and payment defaults by customers;
- costs associated with acquisitions of companies and technologies;
- extraordinary expenses such as litigation or other dispute-related settlement payments;
- the impact of new accounting pronouncements;
- the adverse financial statement impact of having to expense stock options; and
- the timing of payroll and social tax expense which is triggered when employees in foreign jurisdictions exercise their vested stock options.

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

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

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which are typically 12 to 24 months, although terms can range from one to 60 months. As a result, most of the revenue we report in each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed

subscriptions in any one quarter will not necessarily be fully reflected in the deferred revenue balance on our consolidated balance sheet and the revenue in that quarter but will negatively affect our revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect the changes in revenues. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

If we experience significant fluctuations in our rate of growth and fail to balance our expenses with our revenue forecasts, our results could be harmed and our stock price may decline without advance notice.

Due to our evolving business model and the unpredictability of our emerging industry, we may not be able to accurately forecast our rate of growth. We base our current and future expense levels and our investment plans on estimates of future revenue and future rate of growth. We may not be able to adjust our spending quickly enough if the rate of new or renewed subscriptions falls short of our expectations.

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

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The market for our technology delivery model and on-demand application services is immature and volatile, and if it develops more slowly than we expect, our business could be harmed.

The market for on-demand application services is not as mature as the market for packaged enterprise software, and it is uncertain whether these services will achieve and sustain high levels of demand and market acceptance. Our success will depend to a substantial extent on the willingness of enterprises, large and small, to increase their use of on-demand application services in general, and for CRM in particular. Many enterprises have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to an on-demand application service. Furthermore, some enterprises may be reluctant or unwilling to use on-demand application services because they have concerns regarding the risks associated with security capabilities, among other things, of the technology delivery model associated with these services. If enterprises do not perceive the benefits of on-demand application services, then the market for these services may not develop at all, or it may develop more slowly than we expect, either of which would significantly adversely affect our operating results. In addition, we may make errors in predicting and reacting to relevant business trends, which could harm our business.

Our success also depends on the willingness of third-party developers to build applications that are complementary to our service. Without the development of these applications, both current and potential customers may not find our service sufficiently attractive. In fiscal 2006, we introduced the AppExchange directory, a central online marketplace for on-demand applications that we host for our customers, developers and partners to exchange custom on-demand applications that are built on, or can integrate with, our service. These custom applications, some of which are not CRM-related, include applications ranging from expense management to purchasing to recruiting. It is uncertain whether this service will be accepted and adopted by our customers, developers and partners or will increase the demand for subscriptions to our service.

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

Our customers have no obligation to renew their subscriptions for our service after the expiration of their initial subscription period, which is typically 12 to 24 months, and in fact, some customers have elected not to renew. In addition, our customers may renew for fewer subscriptions or renew for shorter contract lengths. We cannot accurately predict customer renewal rates, particularly for our enterprise customers who purchase a large number of subscriptions under multi-year contracts. Our customers renewal rates may decline or fluctuate as a result of a number of factors, including their dissatisfaction with our service and their ability to continue their operations and spending levels. If our customers do not renew their subscriptions for our service, our revenue will decline and our business will suffer.

Our future success also depends in part on our ability to sell additional features and services, more subscriptions or enhanced editions of our service to our current customers. This may require increasingly sophisticated and costly sales efforts that are targeted at senior management. If these efforts are not successful, our business may suffer.

Our growth could strain our personnel resources and infrastructure, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to successfully implement our business plan.

We continue to experience a period of increasing headcount and growth in our operations to support a growing customer base, which has placed, and will continue to place, to the extent that we are able to sustain such growth, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate that further growth will be required to address increases in our customer base, further development of our service, as well as our expansion into new geographic areas.

Our success will depend in part upon the ability of our senior management to manage this growth effectively. To do so, we must continue to hire, train and manage new employees as needed. If our new hires

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perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. The additional headcount and capital investments we are making will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

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 challenges, and we may have to delay revenue recognition for some complex transactions, all of which could harm our business and operating results.

As we target more of our sales efforts at larger enterprise customers, we will face greater costs, longer sales cycles and less predictability in completing some of our sales. In this market segment, the customer s decision to use our service may be an enterprise-wide decision and, if so, these types of sales would require us to provide greater levels of education regarding the use and benefits of our service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. In addition, larger customers may demand more customization, integration services and features. As a result of these factors, these sales opportunities may require us to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting 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.

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

We periodically restructure or make other adjustments to our sales organization in response to market opportunities, competitive threats, management changes, product introductions or enhancements, sales performance, increases in sales headcount and other internal and external considerations. In the past, these restructurings sometimes resulted in a temporary lack of focus and reduced productivity; these effects could recur in connection with any future sales restructurings we might undertake and our rate of revenue growth could be negatively affected.

If we are not able to develop enhancements and new features to our existing service or acceptable new services that keep pace with technological developments, our business will be harmed.

If we are unable to develop enhancements to and new features for our existing service or acceptable new services that keep pace with rapid technological developments, our business will be harmed. The success of enhancements, new features and services depends on several factors, including the timely completion, introduction and market acceptance of the feature or edition. Failure in this regard may significantly impair our revenue growth. In addition, because our service is designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously modify and enhance our service to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in either developing these modifications and enhancements or in timely bringing them to market. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development expenses. Any failure of our service to operate effectively with future network platforms and technologies could reduce the demand for our service, result in customer dissatisfaction and harm our business.

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

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail

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significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have two U.S. patents and many other U.S. patent applications pending, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

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

The software and Internet industries are characterized by the existence of a large number of patents, trademarks and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We have received in the past, and may receive in the future, communications from third parties claiming that we have infringed on the intellectual property rights of others. In addition, we have been, and may in the future be, sued by third parties for alleged infringement of their proprietary rights. Our technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming and expensive to resolve, could divert management attention from executing our business plan and could require us to pay monetary damages or enter into royalty or licensing agreements. In addition, 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. An adverse determination could also prevent us from offering our service to others.

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

We believe that developing and maintaining awareness of the salesforce.com brand and our other brands in a cost-effective manner is critical to achieving widespread acceptance of our existing and future services and is an important element in attracting new customers. Furthermore, we believe that the importance of brand recognition will increase as competition in our market develops. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable secure and useful services at competitive prices. In the past, our efforts to build our brands have involved significant expense. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in building our brands. If we fail to successfully promote and maintain our brands, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brands, we may fail to attract enough new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

Failure to adequately expand our direct sales force and develop and expand our indirect sales channel will impede our growth.

We continue to be substantially dependent on our direct sales force to obtain new customers, particularly large enterprise customers, and to manage our customer base. We believe that there is significant competition for

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direct sales personnel with the advanced sales skills and technical knowledge we need. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of direct sales personnel. New hires require significant training and may, in some cases, take more than a year before they achieve full productivity. Our recent hires and planned hires may not become as productive as we would like, and we may be unable to hire sufficient numbers of qualified individuals in the future in the markets where we do business. If we are unable to hire and develop sufficient numbers of productive direct sales personnel, sales of our service will suffer and our growth will be impeded. In addition, we plan to develop and expand our indirect sales channel by engaging third-party resellers. Because of our on-demand service model, the structuring of such relationships is complex and requires the investment of significant business, financial and other resources. If we are unable to structure successful third-party channel relationships that enable us to enter markets we otherwise would have greater difficulty entering, our growth will be inhibited.

Our business could be adversely affected if our customers are not satisfied with implementation and customization services provided by us or our partners.

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

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

Because we sell our service throughout the world, we are subject to risks and challenges that we would otherwise not face if we conducted our business only in the United States. For example, sales in Europe and Asia Pacific together represent over 25 percent of our total revenues, and we intend to continue to expand our international sales efforts. The risks and challenges associated with sales to customers outside the United States include:

- localization of our service, including translation into foreign languages and associated expenses;
- laws and business practices favoring local competitors;
- compliance with multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- regional data privacy laws that apply to the transmission of our customers data across international borders;
- foreign currency fluctuations;
- different pricing environments;
- difficulties in staffing and managing foreign operations;
- different or lesser protection of our intellectual property;

- longer accounts receivable payment cycles and other collection difficulties; and
- regional economic and political conditions.

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

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

Evolving regulation of the Internet may affect us adversely.

As Internet commerce continues to evolve, increasing regulation by federal, state or foreign agencies becomes more likely. For example, we believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers ability to use and share data, potentially reducing demand for CRM solutions and restricting our ability to store, process and share data with our customers. In addition, taxation of services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet may also be imposed. Any regulation imposing greater fees for Internet use or restricting information exchange over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

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

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

For example, in the United States regulations such as the Gramm-Leach-Bliley Act, which protects and restricts the use of consumer credit and financial information, and the Health Insurance Portability and Accountability Act of 1996, which regulates the use and disclosure of personal health information, impose significant requirements and obligations on businesses that may affect the use and adoption of our service.

The European Union has also adopted a data privacy directive that requires member states to impose restrictions on the collection and use of personal data that, in some respects, are far more stringent, and impose more significant burdens on subject businesses, than current privacy standards in the United States. All of these domestic and international legislative and regulatory initiatives may adversely affect our customers ability to collect and/or use demographic and personal information from their customers, which could reduce demand for our service. Many if not most other jurisdictions, including Asia countries, have similar stringent privacy laws and regulations.

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

Our business is subject to changing regulations regarding corporate governance and public disclosure that have increased both our costs and the risk of non-compliance.

We are subject to rules and regulations by various governing bodies, including, for example, the Securities and Exchange Commission, which are charged with the protection of investors and the oversight of companies

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whose securities are publicly traded. Our efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

We are required to comply on an on-going basis with the Sarbanes-Oxley Act, or SOX, requirements involving the assessment of our internal controls over financial reporting. Our efforts to comply with the SOX requirements have required, and will continue to require the commitment of significant financial and personnel resources.

Moreover, because these laws, regulations and standards are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, our business may be harmed.

We are dependent on our management team and development and operations personnel, and the loss of one or more key employees or groups could harm our business and prevent us from implementing our business plan in a timely manner.

Our success depends substantially upon the continued services of our executive officers and other key members of management. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives. Such changes in our executive management team may be disruptive to our business.

We are also substantially dependent on the continued service of our existing development and operations personnel because of the complexity of our service and technologies.

We do not have employment agreements with any of our executive officers, key management, development or operations personnel and, therefore, they could terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our employees. The loss of one or more of our key employees or groups could seriously harm our business.

Because competition for our target employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth.

To continue to execute on our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers with high levels of experience in designing and developing software and Internet-related services and senior sales executives. We may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, job candidates and existing employees often consider the value of the stock awards they are to receive in connection with their employment. Volatility in the price of our stock and the cost to expense stock options may discourage us from granting the size or type of stock awards that job candidates require to join our company. 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.

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

As part of our business strategy, we may acquire, enter into joint ventures with or make investments in complementary companies, services and technologies in the future. Acquisitions and investments involve numerous risks, including:

- the potential failure to achieve the expected benefits of the combination or acquisition;
- difficulties in and the cost of integrating operations, technologies, services and personnel;
- diversion of financial and managerial resources from existing operations;
- risk of entering new markets in which we have little or no experience;
- potential write-offs of acquired assets or investments;
- potential loss of key employees;
- inability to generate sufficient revenue to offset acquisition or investment costs;
- the inability to maintain relationships with customers and partners of the acquired business;
- the difficulty of incorporating acquired technology and rights into our products and services and of maintaining quality standards consistent with our brand;
- potential unknown liabilities associated with the acquired businesses;
- unanticipated expenses related to acquired technology and its integration into existing technology;
- negative impact to our results of operations because of the depreciation and amortization of amounts related to acquired intangible assets, fixed assets and deferred compensation, and the loss of acquired deferred revenue;
- delays in customer purchases due to uncertainty and the inability to maintain relationships with customers of the acquired businesses;
- the need to implement controls, procedures and policies appropriate for a public company at companies that prior to the acquisition lacked such controls, procedures and policies; and

challenges caused by distance, language and cultural differences.

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

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

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

Our effective tax rate has experienced significant fluctuations over the past fiscal year in comparison to previous years. The tax rate is affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses arising from the requirement to expense stock options and the valuation of deferred tax assets and liabilities. Increases in our effective tax rate could materially affect our net results.

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Risks Related to Ownership of Our Common Stock

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

The trading prices of the securities of technology companies have been highly volatile. Accordingly, the trading price of our common stock has been and is likely to continue to be subject to wide fluctuations. For example, during the six months ended July 31, 2008, the trading price of our common stock has ranged from a closing price of $47.88 to $74.43 per share. Factors affecting the trading price of our common stock include:

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

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading 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.

If securities analysts stop publishing research or reports about us or our business or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. If one or more of the analysts who do cover us downgrade our stock or lower their future stock price targets or estimates of our operating results, our stock price could decline rapidly. Furthermore, if one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

The concentration of our capital stock ownership with insiders will likely limit your ability to influence corporate matters.

Our executive officers, directors, and several stockholders and their affiliated entities together beneficially own a majority of our outstanding common stock.

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As a result, these stockholders, if they act together or in a block, could have significant influence over most matters that require approval by our stockholders, including the election of directors and approval of significant corporate transactions, even if other stockholders oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company that other stockholders may view as beneficial.

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 trading price of our common stock.

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

- establish a classified board of directors so that not all members of our board are elected at one time;
- permit the board of directors to establish the number of directors;
- provide that directors may only be removed for cause and only with the approval of 66 2/3 percent of our stockholders;
- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of blank check preferred stock that our board could use to implement stockholder rights (also known as a poison pill);
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our board or for proposing matters that can be acted upon by stockholders at 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.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our 2008 Annual Meeting of Stockholders was held on July 10, 2008. The following proposals were voted upon as follows:

1. To elect three Class I directors, Marc Benioff, Craig Conway and Alan Hassenfeld, to serve for a term of three years and until their successors are duly elected and qualified:

	For	Withheld
Marc Benioff	110,816,261	1,771,560
Craig Conway	106,719,490	5,868,331
Alan Hassenfeld	111,326,229	1,261,592

Other directors whose term continued after the 2008 Annual Meeting of Stockholders include Craig Ramsey, Sanford R. Robertson, Maynard Webb, Stratton Sclavos, Lawrence Tomlinson, and Shirley Young.

2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending January 31, 2009:

For	Against	Withheld
110,902,146	1,639,199	46,476

This proposal was approved by a majority of the shares represented and voting (including abstentions) with respect to this proposal, which shares voting affirmatively also constituted a majority of the required quorum.

3. To approve amending our 2004 Equity Incentive Plan to eliminate the annual automatic share replenishment from such plan and increase the number of shares authorized for grant by an incremental 7,500,000 shares:

For	Against	Withheld	Broker non-vote
38,866,103	63,928,156	49,443	9,744,119

This shareholder proposal was not approved, as the number of shares voting affirmatively on the proposal constituted less than a majority of the shares represented and voting (including abstentions but excluding broker non-votes) with respect to the proposal.

4. To approve amending our 2004 Equity Incentive Plan to enable incentive compensation under such plan to qualify as deductible performance based compensations within the meaning of Internal Revenue Code Section 162(m):

For	Against	Withheld	Broker non-vote
109,681,782	2,849,253	56,786	0

This shareholder proposal was approved, as the number of shares voting affirmatively on the proposal constituted a majority of the shares represented and voting (including abstentions but excluding broker non-votes) with respect to the proposal.

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ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

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

Exhibit 3.1(1)	Amended and Restated Certificate of Incorporation of salesforce.com, inc.
Exhibit 3.2(2)	Amended and Restated Bylaws of salesforce.com, inc.
Exhibit 10.1	2004 Equity Incentive Plan, as amended, and related forms of agreements
Exhibit 31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) and 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) and 15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

(2) Incorporated by reference from the Company s Form 8-K as filed with the Securities and Exchange Commission on December 7, 2007.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 22, 2008

salesforce.com, inc.

/s/ Graham Smith
Graham Smith

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Officer)