SALESFORCE COM INC
Form 10-Q
August 25, 2009
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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, 2009

OR

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

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

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

The Landmark @ One Market, Suite 300

San Francisco, California 94105

(Address of principal executive offices)

Telephone Number (415) 901-7000

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 31, 2009, there were approximately 124.0 million shares of the Registrant s Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

salesforce.com, inc.

Condensed Consolidated Balance Sheets

(in thousands)

	July 31, 2009 (unaudited)	January 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 246,169	$ 483,834
Short-term marketable securities	173,957	213,769
Accounts receivable, net	168,842	266,555
Deferred commissions	36,370	39,384
Deferred income taxes	26,827	31,900
Prepaid expenses and other current assets	49,153	33,115
Total current assets	701,318	1,068,557
Marketable securities, noncurrent	610,280	184,962
Fixed assets, net	96,470	77,027
Deferred commissions, noncurrent	15,457	17,699
Deferred income taxes, noncurrent	29,865	26,589
Capitalized software, net	28,981	29,989
Goodwill	44,872	44,872
Other assets, net	29,284	30,127
Total assets	$ 1,556,527	$ 1,479,822
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 13,389	$ 16,379
Accrued expenses and other current liabilities	157,604	163,205
Income taxes payable	2,759	3,619
Deferred revenue	538,836	583,763
Total current liabilities	712,588	766,966
Income taxes payable, noncurrent	16,579	12,490
Long-term lease liabilities and other	14,796	7,616
Deferred revenue, noncurrent	10,174	10,263
Total liabilities	754,137	797,335
salesforce.com stockholders equity:		
Common stock	124	123
Additional paid-in capital	727,533	648,724
Accumulated other comprehensive loss	(2,016)	(2,905)
Retained earnings	65,476	25,842

Total stockholders equity controlling interest	791,117	671,784
Total stockholders equity noncontrolling interest	11,273	10,703
Total stockholders equity	802,390	682,487
Total liabilities and stockholders equity	$ 1,556,527	$ 1,479,822

See accompanying Notes to Condensed Consolidated Financial Statements.

salesforce.com, inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
Revenues:				
Subscription and support	$ 293,440	$ 239,720	$ 575,208	$ 465,061
Professional services and other	22,621	23,357	45,777	45,638
Total revenues	316,061	263,077	620,985	510,699
Cost of revenues (1):				
Subscription and support	38,971	30,668	75,999	59,378
Professional services and other	23,525	23,423	48,297	46,011
Total cost of revenues	62,496	54,091	124,296	105,389
Gross profit	253,565	208,986	496,689	405,310
Operating expenses (1):				
Research and development	31,103	24,033	62,687	43,800
Marketing and sales	146,214	130,774	284,481	253,478
General and administrative	46,759	38,081	89,909	76,513
Total operating expenses	224,076	192,888	437,077	373,791
Income from operations	29,489	16,098	59,612	31,519
Interest, net	7,454	6,708	11,776	13,430
Other expense	(1,072)	(840)	(701)	(1,603)
Income before provision for income taxes and noncontrolling interest	35,871	21,966	70,687	43,346
Provision for income taxes	(14,030)	(10,558)	(29,853)	(20,869)
Consolidated net income	21,841	11,408	40,834	22,477
Less: Net income attributable to noncontrolling interest	(643)	(1,412)	(1,200)	(2,926)
Net income attributable to salesforce.com	$ 21,198	$ 9,996	$ 39,634	$ 19,551
Earnings per share - basic and diluted:				
Basic net income per share attributable to salesforce.com common shareholders	$ 0.17	$ 0.08	$ 0.32	$ 0.16
Diluted net income per share attributable to salesforce.com common shareholders	$ 0.17	$ 0.08	$ 0.31	$ 0.16
Shares used in computing basic net income per share	123,846	120,863	123,526	120,321
Shares used in computing diluted net income per share	126,566	125,626	125,894	125,091
(1) Amounts include stock-based expenses, as follows:				
Cost of revenues	$ 3,171	$ 2,657	$ 6,327	$ 5,332
Research and development	2,950	2,259	6,034	4,358
Marketing and sales	9,317	8,749	19,259	16,870
General and administrative	5,439	5,219	10,920	10,389

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, 2009	Three Months Ended July 31, 2008	Six Months Ended July 31, 2009	Six Months Ended July 31, 2008
Operating activities:				
Consolidated net income	$ 21,841	$ 11,408	$ 40,834	$ 22,477
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	12,144	8,870	24,289	17,028
Amortization of deferred commissions	15,315	13,907	30,261	28,630
Expenses related to stock-based awards	20,877	18,884	42,540	36,949
Excess tax benefits from employee stock plans	(15,687)	(11,843)	(25,135)	(24,541)
Changes in assets and liabilities:				
Accounts receivable, net	(22,816)	(3,073)	97,870	73,079
Deferred commissions	(14,136)	(14,232)	(25,005)	(26,882)
Prepaid expenses and other current assets	1,308	(978)	(1,819)	(6,093)
Other assets	2,683	1,738	(118)	2,514
Accounts payable	(2,368)	(5,507)	(2,990)	6,330
Accrued expenses and other current liabilities	27,057	24,652	8,120	8,764
Deferred revenue	(363)	9,249	(45,016)	(1,348)
Net cash provided by operating activities	45,855	53,075	143,831	136,907
Investing activities:				
Purchases of marketable securities	(307,397)	(94,450)	(768,476)	(199,399)
Sales of marketable securities	129,475	25,942	317,266	57,531
Maturities of marketable securities	39,529	43,390	70,179	133,290
Capital expenditures	(19,328)	(13,036)	(32,756)	(37,213)
Net cash provided used in investing activities	(157,721)	(38,154)	(413,787)	(45,791)
Financing activities:				
Proceeds from the exercise of stock options	5,139	22,525	14,307	34,010
Excess tax benefits from employee stock plans	15,687	11,843	25,135	24,541
Principal payments on capital lease obligations	(2,258)		(3,506)	(5)
Net cash provided by financing activities	18,568	34,368	35,936	58,546
Effect of exchange rate changes	(2,238)	(794)	(3,645)	(1,714)
Net (decrease) increase in cash and cash equivalents	(95,536)	48,495	(237,665)	147,948
Cash and cash equivalents, beginning of period	341,705	378,548	483,834	279,095
Cash and cash equivalents, end of period	$ 246,169	$ 427,043	$ 246,169	$ 427,043

Supplemental cash flow disclosure:

Cash paid during the period for:				
Income taxes, net of tax refunds	$ 16,791	$ 1,178	$ 21,074	$ 5,415
Interest	285	16	492	133

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) provides a comprehensive customer relationship management (CRM) service to businesses of all sizes and industries worldwide and provides a technology platform for customers and developers to build and run applications. The Company offers its services on a subscription basis.

Fiscal Year

The Company s fiscal year ends on January 31. References to fiscal 2010, for example, refer to the fiscal year ending January 31, 2010.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of July 31, 2009 and the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the three and six months ended July 31, 2009 and 2008, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2009 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, 2009, which was filed with the Securities and Exchange Commission (the SEC) on March 9, 2009. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company s fiscal 2009 Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. 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 U.S. GAAP for complete financial statements. In the opinion of the Company s management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K, except as described below, and include all adjustments necessary for the fair presentation of the Company s statement of financial position as of July 31, 2009, and its results of operations and its cash flows for the three and six months ended July 31, 2009 and 2008. All adjustments are of a normal recurring nature. The results for the three and six months ended July 31, 2009 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2010.

Effective February 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for any noncontrolling interest in a subsidiary (and for the deconsolidation of a subsidiary). SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as a component of equity in the consolidated financial statements and requires disclosure, on the face of the consolidated statements of income, of the amounts of the consolidated net income attributable to the parent and to the noncontrolling interests.

Accordingly, noncontrolling interest of $11.3 million and $10.7 million as of July 31, 2009 and January 31, 2009, respectively, have been reflected in stockholders equity.

Use of Estimates

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Significant estimates and assumptions made by management include the determination of the provision for income taxes, whether an other-than-temporary decline has occurred in the fair value of certain investments in marketable securities, 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.

The Company holds a controlling interest in Kabushiki Kaisha salesforce.com (Salesforce Japan), a Japanese joint venture. As of July 31, 2009, the Company owned a 72 percent interest in the joint venture.

Given the Company s controlling interest in the joint venture, the accounts of the joint venture have been consolidated with the accounts of the Company, and a noncontrolling interest has been recorded for the noncontrolling investors interests in the net assets and operations of the joint venture to the extent of noncontrolling investors individual investments.

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, 2009 and January 31, 2009. No single customer accounted for 5 percent or more of total revenue in the three and six months ended July 31, 2009 and 2008, respectively.

As of July 31, 2009 and January 31, 2009, assets located outside the Americas were 14 percent of total assets.

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Notes to Condensed Consolidated Financial Statements (Continued)

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

	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008
Americas	$ 226,008	$ 188,563	$ 446,658	$ 366,934
Europe	55,992	49,356	107,594	94,520
Asia Pacific	34,061	25,158	66,733	49,245
	$ 316,061	$ 263,077	$ 620,985	$ 510,699

Cash and Cash Equivalents

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

Marketable Securities

Management determines the appropriate classification of investments in marketable securities at the time of purchase in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and reevaluates such determination at each balance sheet date. Except for the money market mutual fund described below, securities are classified as available for sale and are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders equity. Fair value is determined based on quoted market rates when observable or utilizing data points that are observable such as quoted prices, interest rates and yield curves. Declines in fair value judged to be other-than temporary on securities available for sale are included as a component of interest, net. 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, net. In order to determine whether a decline in value is other-than temporary, the Company evaluates, among other factors, the duration and extent to which the fair value has been less than the carrying value, the Company s financial condition and business outlook, including key operational and cash flow metrics, current market conditions and the Company s intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair market value.

Fair Value Measurement

In accordance with SFAS No. 157, *Fair Value Measurement* (SFAS 157), the Company measures its cash equivalents, marketable securities and foreign currency derivative contracts at fair value. A majority of the Company s cash equivalents and its marketable securities are classified within Level 1 or Level 2, which are described below. This is because the Company s cash equivalents and marketable securities are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

A portion of the Company s money market mutual funds are classified within Level 3, described below, because they are invested in The Reserve Primary Fund (The Reserve Fund). At July 31, 2009 the Company s investment portfolio included $9.2 million invested in The Reserve Fund with an estimated fair value of $8.0 million. During the year ended January 31, 2009, the Company recorded a $1.2 million loss related to this decline in fair value that is considered other-than-temporary.

On February 26, 2009, The Reserve Fund announced its decision to initially set aside $3.5 billion in a special reserve under the plan of liquidation, to cover potential liabilities for damages and associated expenses

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Notes to Condensed Consolidated Financial Statements (Continued)

related to lawsuits and regulatory actions against the fund. The special reserve may be increased or decreased as further information becomes available. As a result, pursuant to the liquidation plan, interim distributions will continue to be made up to 91.72 percent, unless The Reserve Fund determines a need to increase the special reserve. Amounts in the special reserve will be distributed to shareholders once claims, if any are successful, and the related expenses have been paid or set aside for payment. The determination of the total redemption to the Company is subject to the distribution available to all investors of the fund. While the Company believes it has the right to recover its entire remaining investment, the Company cannot predict the ultimate amount it will receive.

The Company s foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments in inactive markets.

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 Company conducted its fair value assessment of The Reserve Fund using Level 3 inputs. Management has reviewed the Reserve s underlying securities portfolio which is substantially comprised of discount notes, certificates of deposit and commercial paper issued by highly-rated institutions. Management also evaluated the fair value of its ownership in The Reserve Fund, considering risk of extended timing and other factors. The assumption of timing for the actual repayment of the Company s ownership from The Reserve Fund is inherently subjective and involves significant management judgment. For the Company s investments in privately-held companies, management evaluated financial results, earnings trends, and subsequent financing of these companies, as well as general market conditions, to determine fair value. As a result, the Company classified its ownership in The Reserve Fund and investments in privately-held companies within Level 3 of the fair value hierarchy.

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table presents information about the Company s assets that are measured at fair value on a recurring basis as of July 31, 2009 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of July 31, 2009
Cash equivalents (1):				
Time deposits	$ 322	$	$	$ 322
Money market mutual funds	133,937			133,937
Corporate notes and obligations		19,923		19,923
Marketable securities:				
Corporate notes and obligations		476,321		476,321
Government obligations		5,566		5,566
U.S. treasury securities	71,113			71,113
U.S. agency obligations		127,589		127,589
Mortgage backed securities		25,525		25,525
Collateralized mortgage obligations		67,599		67,599
Municipal securities		2,538		2,538
Money market mutual fund			7,986	7,986
Foreign currency derivative contracts (2)		246		246
Investments in privately-held companies (3)			2,700	2,700
Total Assets	$ 205,372	$ 725,307	$ 10,686	$ 941,365
Liabilities				
Foreign currency derivative contracts (4)	$	$ 985	$	$ 985
Total Liabilities	$	$ 985	$	$ 985

(1) Included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheet as of July 31, 2009, in addition to $91,987 of cash.
(2) Included in prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheet as of July 31, 2009.
(3) Included in other assets, net in the accompanying Condensed Consolidated Balance Sheet as of July 31, 2009.
(4) Included in accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet as of July 31, 2009.

The following table presents the Company s assets measured at fair value using significant unobservable inputs (Level 3) at July 31 2009. These assets consist of the Company s investment in The Reserve Fund and investments in privately-held companies (in thousands):

Balance at February 1, 2009	$ 20,694
Additions to Level 3	700
Realized loss included in Other (expense)	(400)
Redemptions	(10,308)

Balance at July 31, 2009	$ 10,686

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Notes to Condensed Consolidated Financial Statements (Continued)

The following table presents information about the Company s assets that are measured at fair value on a recurring basis as of January 31, 2009 and indicates the fair value hierarchy of the valuation (in thousands):

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of January 31, 2009
Cash equivalents (1):				
Time deposits	$ 402	$	$	$ 402
Money market mutual funds	279,246			279,246
Corporate notes and obligations		7,990		7,990
U.S. agency obligations		87,852		87,852
Marketable securities:				
Corporate notes and obligations		215,140		215,140
U.S. agency obligations		165,297		165,297
Money market mutual funds			18,294	18,294
Foreign currency derivative contracts (2)		1,054		1,054
Investments in privately-held companies (3)			2,400	2,400
Total Assets	$ 279,648	$ 477,333	$ 20,694	$ 777,675
Liabilities				
Foreign currency derivative contracts (4)	$	$ 2,058	$	$ 2,058
Total liabilities	$	$ 2,058	$	$ 2,058

(1) Included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheet as of January 31, 2009, in addition to $108,344 of cash.
(2) Included in prepaid expenses and other current assets in the accompanying Condensed Consolidated Balance Sheet as of January 31, 2009.
(3) Included in other assets, net in the accompanying Condensed Consolidated Balance Sheet as of January 31, 2009.
(4) Included in accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheet as of January 31, 2009.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce the risk that its cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. The Company uses forward currency derivative contracts to minimize the Company s exposure of balances denominated in Euros, Swiss francs, Australian dollars, Singapore dollars, Japanese yen and British pounds. The Company s program is not designated for trading or speculative purposes. As of July 31, 2009 the foreign currency derivative contracts that were not settled are recorded at fair value on the condensed consolidated balance sheet.

The Company s foreign currency derivative contracts, which are not designated as hedging instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. Foreign currency derivative contracts are marked-to-market at the end of each reporting period with gains and losses recognized as other income (expense) to offset the gains or losses resulting from the settlement or remeasurement of the underlying foreign currency denominated receivables and payables. While the contract or notional amount is often used to express the volume of foreign currency derivative contracts, the amounts potentially subject to

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Notes to Condensed Consolidated Financial Statements (Continued)

credit risk are generally limited to the amounts, if any, by which the counterparties obligations under the agreements exceed the obligations of the Company to the counterparties.

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

	July 31, 2009	January 31, 2009
Notional amount of foreign currency derivative contracts	$ 49,541	$ 158,704
Fair value of foreign currency derivative contracts	(739)	(1,004)

Effective February 1, 2009, the Company adopted the disclosure requirements of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* (SFAS 161). At July 31, 2009 and January 31, 2009, the fair values of our outstanding derivative instruments are summarized below (in thousands):

		Fair Value of Derivative Instruments	
	Balance Sheet Location	**As of July 31, 2009**	**As of January 31, 2009**
Derivative Assets			
Derivatives not designated as hedging instruments under SFAS 133:			
Foreign currency derivative contracts	Prepaid expenses and other current assets	$ 246	$ 1,054
Derivative Liabilities			
Derivatives not designated as hedging instruments under SFAS 133:			
Foreign currency derivative contracts	Accrued expenses and other current liabilities	$ 985	$ 2,058

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Notes to Condensed Consolidated Financial Statements (Continued)

The effect of the derivative instruments not designated as hedging instruments on the Condensed Statements of Operations for the three and six months ended July 31, 2009 and July 31, 2008, respectively are summarized below (in thousands):

Derivatives Not Designated as Hedging Instruments under SFAS 133	Losses Recognized in Income on Derivative Instruments		
		Three months ended July 31,	
	Location	2009	2008
Foreign currency derivative contracts	Other expense	$ (739)	$

Derivatives Not Designated as Hedging Instruments under SFAS 133	Losses Recognized in Income on Derivative Instruments		
		Six months ended July 31,	
	Location	2009	2008
Foreign currency derivative contracts	Other expense	$ (664)	$

Interest, net

The components of Interest, net are presented below (in thousands):

	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008
Interest income	$ 5,585	$ 6,706	$ 9,851	$ 13,622
Realized gains	2,117	159	3,186	296
Realized losses	(248)	(157)	(1,261)	(488)
	$ 7,454	$ 6,708	$ 11,776	$ 13,430

Comprehensive Income

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

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Notes to Condensed Consolidated Financial Statements (Continued)

Comprehensive income consisted of the following (in thousands):

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
Consolidated net income	$ 21,841	$ 11,408	$ 40,834	$ 22,477
Less: net income attributable to noncontrolling interest	(643)	(1,412)	(1,200)	(2,926)
Translation and other adjustments	(1,690)	(246)	(3,585)	(181)
Unrealized gain (loss) on marketable securities	3,724	(299)	4,474	(1,731)
Comprehensive income attributable to salesforce.com	$ 23,232	$ 9,451	$ 40,523	$ 17,639

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

	July 31, 2009	January 31, 2009
Foreign currency translation and other adjustments	$ (7,851)	$ (3,957)
Net unrealized gain on marketable securities and cash equivalents	5,835	1,052
	$ (2,016)	$ (2,905)

Net Income Per Share

Basic net income per share attributable to salesforce.com is computed by dividing net income attributable to salesforce.com by the weighted-average number of common shares outstanding for the fiscal period. Diluted net income per share attributable to salesforce.com 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 attributable to salesforce.com is as follows (in thousands):

	Three months ended July 31, 2009	Three months ended July 31, 2008	Six months ended July 31, 2009	Six months ended July 31, 2008
Numerator:				
Net income attributable to salesforce.com	$ 21,198	$ 9,996	$ 39,634	$ 19,551
Denominator:				
Weighted-average shares outstanding for basic earnings per share	123,846	120,863	123,526	120,321
Effect of dilutive securities:				
Employee stock awards	2,720	4,763	2,368	4,770

Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share	126,566	125,626	125,894	125,091

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

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Notes to Condensed Consolidated Financial Statements (Continued)

	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008
Stock awards	4,658	3,256	6,026	3,154

Income Taxes

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

The total income tax benefit recognized in the accompanying condensed consolidated statements of operations related to SFAS 123R was $15.0 million and $13.0 million for the six months ended July 31, 2009 and 2008, 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,	
	2009	2008
U.S. federal taxes at statutory rate	$ 24,740	$ 15,171
State, net of the federal benefit	3,701	2,468
Foreign losses providing no benefit		2,112
Foreign taxes in excess of the U.S. statutory rate	2,370	1,579
Tax credits	(2,693)	(1,119)
Non-deductible expenses	492	407
Impact of tax law changes	2,222	
Domestic manufacturing deduction	(1,339)	
Taxes relating to noncontrolling interest	(629)	
Other, net	989	251
	$ 29,853	$ 20,869

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 six months ended July 31, 2009.

Tax positions for the Company and its subsidiaries are subject to income tax audits by multiple tax jurisdictions throughout the world. 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.

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Notes to Condensed Consolidated Financial Statements (Continued)

Revenue Recognition

The Company derives its revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing its enterprise cloud computing application service, and from customers purchasing additional support beyond the standard support that is included in the basic subscription fee; and (2) related professional services 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 Securities and Exchange Commission s, or SEC, 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 materials 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, 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, 2009 and January 31, 2009, the deferred cost on the accompanying condensed consolidated balance sheet totaled $16.3 million and $17.3 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 described above and is recognized as the revenue recognition criteria are met. The Company generally invoices its customers in annual or quarterly installments. Accordingly, the deferred revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. 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. Approximately 7 percent of total deferred revenue as of July 31, 2009 and January 31, 2009 related to deferred professional services revenue.

Deferred Commissions

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

Accounting for Stock-Based Compensation

The Company accounts for its employee stock-based compensation pursuant to SFAS No. 123R, *Share-Based Payment* (SFAS 123R). The Company recognizes share-based expenses on a straight-line over the requisite service period of the awards, which is the vesting term of four years. Stock-based expenses pursuant to SFAS 123R are recognized net of estimated forfeiture activity.

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

	Three months ended July 31,		Six months ended July 31,	
	2009	**2008**	**2009**	**2008**
Volatility	52%	47%	52-60%	47%
Weighted-average estimated life	4 years	4 years	4 years	4 years
Weighted-average risk-free interest rate	2.09-2.39%	2.82-3.08%	1.78-2.39%	2.24-3.08%
Dividend yield				
Weighted-average fair value per share of grants	$ 16.66	$ 27.01	$ 15.83	$ 22.91

The weighted-average estimated life 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 its observed option-implied volatilities and its historical volatility calculations. 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, 2009 and 2008, the Company capitalized $0.7 million and $0.5 million, respectively, of stock based expenses related to capitalized internal-use software development and deferred professional services costs and $1.1 million and $1.0 million for the six months ended July 31, 2009 and 2008, respectively.

During the six months ended July 31, 2009, the Company recognized stock-based expense of $42.5 million. As of July 31, 2009, the aggregate stock compensation remaining to be amortized to costs and expenses was $212.1 million. The Company expects this stock compensation balance to be amortized as follows: $51.0 million during the remaining six months of fiscal 2010; $83.6 million during fiscal 2011; $56.9 million during fiscal 2012; $20.1 million during fiscal 2013 and $0.5 million during fiscal 2014. The expected amortization reflects only outstanding stock awards as of July 31, 2009 and assumes no forfeiture activity. The Company expects to continue to issue share-based awards to its employees in future periods.

Warranties and Indemnification

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

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

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

Subsequent Events

The Company evaluated subsequent events through August 25, 2009, the date this Quarterly Report on Form 10-Q was filed with the SEC.

During the three months ended July 31, 2009, the Company adopted SFAS No. 165, *Subsequent Events* (SFAS 165), which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 also requires the disclosure of the date through which an entity has evaluated subsequent events and whether that evaluation date represents the date the financial statements were issued or were available to be issued. The adoption of SFAS 165 did not have any impact on the Company s consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements (Continued)

2. Balance Sheet Accounts

Marketable Securities

At July 31, 2009, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 467,400	$ 9,077	$ (156)	$ 476,321
U.S. agency obligations	126,959	702	(72)	127,589
U.S. treasury securities	71,280	190	(357)	71,113
Collateralized mortgage obligations	67,416	288	(105)	67,599
Mortgage backed securities	25,423	128	(26)	25,525
Government obligations	5,515	51		5,566
Municipal securities	2,517	21		2,538
Money market mutual fund (see Note 1)	7,986			7,986
	$ 774,496	$ 10,457	$ (716)	$ 784,237

At January 31, 2009, marketable securities consisted of the following (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 215,297	$ 1,173	$ (1,330)	$ 215,140
Money market mutual fund (see Note 1)	18,294			18,294
U.S. agency obligations	163,584	1,721	(8)	165,297
	$ 397,175	$ 2,894	$ (1,338)	$ 398,731

	July 31, 2009	January 31, 2009
Recorded as follows (in thousands):		
Short-term (due in one year or less)	$ 173,957	$ 213,769
Long-term (greater than one year)	610,280	184,962
	$ 784,237	$ 398,731

As of July 31, 2009, the following marketable securities were in an unrealized loss position (in thousands):

	Less than 12 Months	12 Months or Greater	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate notes and obligations	$ 33,534	$ (100)	$ 6,467	$ (56)	$ 40,001	$ (156)
Collateralized mortgage obligations	26,262	(105)			26,262	(105)
Mortgage backed securities	9,450	(26)			9,450	(26)
U.S. treasury securities	11,033	(357)			11,033	(357)
U.S. agency obligations	17,298	(72)			17,298	(72)
	$ 97,577	$ (660)	$ 6,467	$ (56)	$ 104,044	$ (716)

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Notes to Condensed Consolidated Financial Statements (Continued)

The unrealized losses are substantially attributable to changes in interest rates. The unrealized loss for each of these fixed rate investments ranged from less than $1,000 to $357,000. The Company does not believe any of the unrealized losses represent an other-than temporary impairment based on its evaluation of available evidence as of July 31, 2009. The Company expects to receive the full principal and interest on all of these marketable securities.

Prepaid Expenses and Other Current Assets

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

	July 31, 2009	January 31, 2009
Deferred professional services costs	$ 12,036	$ 13,069
Prepaid income taxes	14,231	12
Prepaid expenses and other current assets	22,886	20,034
	$ 49,153	$ 33,115

Fixed Assets

Fixed assets consisted of the following (in thousands):

	July 31, 2009	January 31, 2009
Computers, equipment and software	$ 80,261	$ 65,864
Furniture and fixtures	17,324	13,096
Leasehold improvements	68,479	54,032
	166,064	132,992
Less accumulated depreciation and amortization	(69,594)	(55,965)
	$ 96,470	$ 77,027

Depreciation and amortization expense totaled $7.5 million and $4.9 million for the three months ended July 31, 2009 and 2008, respectively, and $14.1 million and $9.5 million for the six months ended July 31, 2009 and 2008, respectively.

Fixed assets at July 31, 2009 and January 31, 2009 included $17.8 million and $10.1 million, respectively, acquired under capital lease agreements. Accumulated amortization relating to equipment and software under capital leases totaled $7.0 million and $4.5 million at July 31, 2009 and January 31, 2009, respectively.

Amortization of assets under capital leases is included in depreciation and amortization expense.

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Notes to Condensed Consolidated Financial Statements (Continued)

Capitalized Software

Capitalized software consisted of the following (in thousands):

	July 31, 2009	January 31, 2009
Capitalized internal-use software development costs, net of accumulated amortization of $16,018 and $11,540, respectively	$ 20,156	$ 17,450
Acquired developed technology, net of accumulated amortization of $17,236 and $13,522, respectively	8,825	12,539
	$ 28,981	$ 29,989

Capitalized internal use software amortization expense totaled $ 2.3 million and $1.6 million for the three months ended July 31, 2009 and 2008, respectively. Acquired developed technology amortization expense for the three months ended July 31, 2009 and 2008, was $1.7 million and $1.4 million, respectively. Capitalized internal use software amortization expense totaled $4.5 million and $2.9 million for the six months ended July 31, 2009 and 2008, respectively. Acquired developed technology amortization expense for the six months ended July 31, 2009 and 2008 was $3.7 million and $2.7 million, respectively.

Other Assets

Other assets consisted of the following (in thousands):

	July 31, 2009	January 31, 2009
Deferred professional services costs, noncurrent portion	$ 4,269	$ 4,185
Long-term deposits	10,491	8,447
Purchased intangible assets, net of accumulated amortization of $4,217 and $2,573, respectively	8,034	9,679
Investments in privately-held companies	2,700	2,400
Other	3,790	5,416
	$ 29,284	$ 30,127

Purchased intangible assets amortization expense for the three months ended July 31, 2009 and 2008, was $0.8 million and $0.1 million, respectively and for the six months ended July 31, 2009 and 2008 was $1.6 million and $0.3 million respectively.

Accrued Expenses and Other Current Liabilities

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

	July 31, 2009	January 31, 2009

Accrued compensation	$ 63,372	$ 74,355
Accrued other liabilities	49,866	39,886
Accrued other taxes payable	19,445	27,596
Accrued professional costs	5,996	3,950
Accrued rent	18,925	17,418
	$ 157,604	$ 163,205

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Notes to Condensed Consolidated Financial Statements (Continued)

3. Stockholders Equity

Stock Options Issued to Employees

The 1999 Stock Option Plan (the 1999 Plan) provides for the issuance of incentive and non-statutory options to employees and nonemployees of the Company. On April 30, 2009, the 1999 Plan expired. Therefore, all remaining shares available expired. The Company also maintains the 2004 Equity Incentive Plan, 2004 Employee Stock Purchase Plan and the 2004 Outside Directors Stock Plan. These plans, other than the 1999 Plan and 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, 2009, 3.5 million additional shares were reserved under the 2004 Equity Incentive Plan pursuant to the automatic increase. The 2004 Employee Stock Purchase Plan will not be implemented unless and until the Company s Board of Directors authorizes the commencement of one or more offerings under the plan. No offering periods have been authorized to date.

In April 2006, the Company s Board of Directors approved the 2006 Inducement Equity Incentive Plan (the Inducement Plan) that allows for stock option and other equity incentive grants to employees in connection with merger or acquisition activity. In March 2009, the Board of Directors amended the Inducement Plan to increase the share reserve by 300,000 shares to 700,000 shares in total. As of July 31, 2009, there were 412,305 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. 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, 2009 is as follows:

	Shares Available for Grant	Options Outstanding		
		Outstanding Stock Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2009	4,191,642	14,917,520	$ 32.51	
Increase in options authorized:				
2004 Equity Incentive Plan	3,500,000			
Inducement Plan	300,000			
Options granted under all plans	(273,305)	273,305	36.07	
Restricted stock unit activity	24,311			
Stock grants to board members for board services and advisory board members	(24,800)			
Exercised		(755,852)	18.93	
1999 Plan shares expired	(117,709)			
Cancelled	718,771	(718,771)	41.25	
Balance as of July 31, 2009	8,318,910	13,716,202	$ 32.87	$ 183,160
Vested or expected to vest		13,322,529	$ 32.74	$ 179,128

Exercisable at July 31, 2009	6,647,657	$	28.16	$	114,695

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Notes to Condensed Consolidated Financial Statements (Continued)

The total intrinsic value of the options exercised during the six months ended July 31, 2009 and 2008 were $13.5 million and $85.8 million, respectively. The intrinsic value is the difference between the current market value of the stock and the exercise price of the stock option.

The weighted-average remaining contractual life of vested and expected to vest options is approximately 4 years.

As of July 31, 2009, options to purchase 6,647,657 shares were vested at a weighted average exercise price of $28.16 per share and a remaining weighted-average remaining contractual life of approximately 4 years. The total intrinsic value of these vested options as of July 31, 2009 was $114.7 million.

The following table summarizes information about stock options outstanding as of July 31, 2009:

	Options Outstanding			Exercisable	
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 - 13.89	2,064,608	4.4	$ 7.78	2,063,753	$ 7.78
$14.39 to 25.19	996,077	5.6	20.00	963,899	19.86
$25.97	3,239,708	4.3	25.97		
$27.20 to 36.34	2,161,972	3.1	31.91	1,385,271	32.13
$36.90 to 52.28	2,524,359	3.3	44.03	1,238,494	42.82
$52.43 to 52.76	2,008,793	3.4	52.56	795,394	52.55
$54.22 to 70.86	720,685	3.7	62.36	200,846	62.98
	13,716,202	3.9	$ 32.87	6,647,657	$ 28.16

Restricted stock unit activity for the six months ended July 31, 2009 is as follows:

	Restricted Stock Units Outstanding		
	Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Balance as of January 31, 2009	2,499,151	$ 0.001	
Granted	112,343	$ 0.001	
Issued	(346,222)	$ 0.001	
Cancelled	(136,654)	$ 0.001	
Balance as of July 31, 2009	2,128,618	$ 0.001	$ 92,254
Expected to vest	1,979,844		$ 85,806

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.

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Notes to Condensed Consolidated Financial Statements (Continued)

Common Stock

The following shares of common stock are available for future issuance at July 31, 2009:

Options outstanding	13,716,202
Restricted stock units outstanding	2,128,618
Stock available for future grant:	
2004 Equity Incentive Plan	7,223,605
2006 Inducement Equity Incentive Plan	412,305
2004 Employee Stock Purchase Plan	1,000,000
2004 Outside Directors Stock Plan	683,000
	25,163,730

4. Commitments

Letters of Credit

As of July 31, 2009, the Company had a total of $10.4 million in letters of credit outstanding for office space in San Francisco, California, New York City, Singapore, Sweden, United Kingdom, Australia and Switzerland. These letters of credit renew annually and mature at various dates through October 2018.

Leases

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

As of July 31, 2009, the future minimum lease payments under noncancelable operating and capital leases are as follows (in thousands):

	Capital Leases	Operating Leases
Fiscal Period:		
Remaining six months in fiscal 2010	$ 4,287	$ 44,741
Fiscal 2011	7,600	66,769
Fiscal 2012	6,745	47,430
Fiscal 2013	632	36,402
Fiscal 2014		30,939
Thereafter		61,300
Total minimum lease payments	19,264	$ 287,581
Less: amount representing interest	(1,350)	
Present value of capital lease obligations	$ 17,914	

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.

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Notes to Condensed Consolidated Financial Statements (Continued)

5. Legal Proceedings and Claims

The Company is involved in various legal proceedings and receives claims from time to time, arising from the normal course of business activities. In the Company s opinion, resolution of these matters is not expected to have a material adverse impact on its consolidated results of operations, cash flows or its financial position.

During fiscal 2009, the Company received a notice from a company alleging that the Company was infringing upon certain of that company s patents. No litigation has been filed to date. The Company continues to analyze the potential merits of the other company s claims, the potential defenses to such claims and potential counter claims. The Company intends to vigorously defend its interests in this matter and is uncertain as to when this matter will be resolved. In the Company s opinion, the resolution of this dispute is not expected to have a material adverse effect on its financial condition, but it could be material to the net income or cash flows of a particular quarter. This claim, or any claim of infringement or violation of intellectual property rights, with or without merit, could require the Company to change its technology, change its business practices, pay damages, enter into a licensing arrangement or take other actions that may result in additional costs or other actions that are detrimental to its business.

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

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

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. The Foundation has exercised all of these warrants. As of July 31, 2009, the Foundation held 158,500 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 $5.0 million per month. The Company plans to continue providing free subscriptions to qualified non-profit organizations through its relationship with the Foundation.

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, our service performance and security, the expenses associated with our data center capacity, our operating results, our anticipated growth, trends in our business, new application service features, our strategy of acquiring or making investments in complementary companies, services and technologies, the effect of general economic and market conditions including sudden declines in the fair value of our investments in cash equivalents and marketable securities, our ability to protect our intellectual property rights, our ability to develop our brands, the effect of evolving government regulations, the effect of foreign currency exchange rate and interest rate fluctuations on our financial results, the potential availability of additional tax assets in the future and related matters, the impact of expensing stock options, the sufficiency of our capital resources, and our strategy to be the leading provider of CRM application services and the leading platform on which customers and partners build enterprise cloud computing applications, 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 provide a comprehensive Customer Relationship Management, or CRM, service to businesses of all sizes and industries worldwide and we provide a technology platform for customers and developers to build and run business applications. Approximately 63,200 customers worldwide use salesforce.com to manage their customer, sales and operational data.

We were founded in February 1999 and began offering our enterprise CRM application service in February 2000.

Our objective is to be the leading provider of CRM application services and to be the leading platform on which our customers and partners build enterprise cloud computing applications. Key elements of our strategy include:

- Strengthening our existing CRM applications and extending into new functional areas within CRM;
- Pursuing new customers and new territories aggressively;
- Deepening relationships with our existing customer base;
- Continuing to lead the industry transformation to cloud computing; and
- Encouraging the development of third-party applications on our Force.com platform.

We believe the factors that will influence our ability to achieve our objectives include our prospective customers willingness to migrate to an enterprise cloud computing application service; the performance and security of our service; our ability to continue to release, and gain customer acceptance of new and improved features; successful customer adoption and utilization of our service; acceptance of our service in markets where we have few customers; increasing competition in our market and improved product offerings by existing and new competitors; the location of our data centers; third-party developers willingness to develop applications on

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our platform; and general economic conditions which could affect our customers ability and willingness to purchase additional or renew existing subscriptions to our application service, or delay the customers purchasing decisions and reduce the value and duration of new subscription contracts.

We anticipate revenue growth for our fiscal 2010 to be significantly lower than the 44 percent annual revenue growth in fiscal 2009. While our revenue and customer growth continues, we believe this lower revenue growth is primarily due to the weakened global economy which has led to a slowdown in information technology, or IT, spending. As a result of this, our new business, which we define as orders for incremental or upgraded applications or subscriptions from new or existing customers, during the six months ended July 31, 2009 was slightly below the level of new business during the same period a year ago. There were three main factors that affected new business. First, we are seeing longer sales cycles as customers are delaying purchasing decisions. Second, the initial average customer deployment sizes are smaller than in the past and third, our customers are not adding subscriptions or upgrading their service levels at the same rate as in the past. Correspondingly, there was a lower demand for our professional services. Additionally, our subscription renewal rates, particularly for our small and medium-size business customers, is slightly below the renewal rates we experienced in previous years. We are seeing some customers electing not to renew and some customers renewing for fewer subscriptions. We believe this is caused by a number of factors such as our customers ability to continue their operations and spending levels.

In response to the current economic environment and the slowdown in IT spending, we scaled back our hiring in the first six months of fiscal 2010. We added only 87 employees compared to 440 employees during the same period a year ago. Our headcount as of July 31, 2009 was 3,653. We also reduced expenditures for customer events, internal meetings, travel and entertainment and outside contractors. However, as mentioned elsewhere in this report, we intend to continue to invest in expanding our data center capacity; increase our research and development activities and personnel in order to upgrade and extend our service offerings as well as to develop new services and technologies; expand our domestic and international selling and marketing activities; add additional distribution channels, particularly in international regions; expand the number of locations around the world where we conduct business; and add to our infrastructure in order to further scale our operations and increase productivity. Additionally, in our effort to further strengthen and extend our service offering, we may acquire or make investments in complementary companies, services and technologies.

Overall, we expect that our cost management will improve our fiscal 2010 operating income performance as a percentage of revenues in comparison to fiscal 2009 as well as our earnings performance.

We expect marketing and sales costs, which were 46 percent of our total revenues for the six months ended July 31, 2009 and 50 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, and build brand awareness for salesforce.com and its services, and evangelize cloud computing.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal 2010, for example, refer to the fiscal year ended January 31, 2010.

Sources of Revenues

We derive our revenues from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing 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 consisting primarily of training fees. Subscription and support revenues accounted for approximately 93 percent of our total revenues during the six months ended July 31, 2009. 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, 2009 and 2008.

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.

Most of the subscription and support revenue we report each quarter is derived from the recognition of deferred revenue relating to subscription agreements entered into or renewed during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter will be fully reflected in the deferred revenue balance on our consolidated balance sheet and the revenue in that quarter, and will negatively affect our revenue in future quarters.

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 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, 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 7 percent of our total deferred revenue as of July 31, 2009 and January 31, 2009 related to deferred professional services revenue.

Seasonal Nature of Deferred Revenue and Accounts Receivable

Deferred revenue primarily consists of billings to customers for our subscription service. Over 90 percent of the value of our billings to customers is for our subscription and support service. We generally invoice our customers in either quarterly or annual cycles, with a disproportionate weighting towards annual billings in the fourth quarter, primarily as a result of large enterprise account buying patterns. Additionally, our fourth quarter has historically been our strongest quarter for new business. The year on year compounding effect of this seasonality in both billing patterns and overall new business is causing the value of invoices that we generate in the fourth quarter for both new and existing customers to increase as a proportion of our total annual billings.

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

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The following table sets forth our accounts receivable and deferred revenue balances as of the end of each fiscal quarter:

(in thousands)	April 30, 2009	July 31, 2009		
Fiscal 2010				
Accounts receivable, net	$ 145,869	$ 168,842		
Deferred revenue, current and noncurrent	549,373	549,010		
	April 30, 2008	**July 31, 2008**	**October 31, 2008**	**January 31, 2009**
Fiscal 2009				
Accounts receivable, net	$ 143,909	$ 146,982	$ 157,680	$ 266,555
Deferred revenue, current and noncurrent	470,297	479,546	469,534	594,026
	April 30, 2007	**July 31, 2007**	**October 31, 2007**	**January 31, 2008**
Fiscal 2008				
Accounts receivable, net	$ 105,013	$ 114,046	$ 121,961	$ 220,061
Deferred revenue, current and noncurrent	295,672	321,852	340,808	480,894

Cost of Revenues and Operating Expenses

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

We intend to continue to invest additional resources in our enterprise cloud computing application service. 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 opened a data center in Singapore in fiscal 2010. We expect the annual cost 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 enterprise cloud computing application service. Our proprietary, scalable and secure multi-tenant architecture enables us to provide all of our customers with a service based on a single version of our application. As a result, we do not have to maintain multiple versions, which enables us to have relatively lower research and development expenses as compared to traditional enterprise software companies. We expect that in the future, research and development expenses will increase in absolute dollars as we 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, 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 in marketing and sales by expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We expect that in the future, marketing and sales expenses will increase in absolute dollars and continue to be our largest cost.

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

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 which we adopted on February 1, 2006. 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, 2009 the Company owned 72 percent of 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 a noncontrolling interest, which reflects the noncontrolling investors interest in the venture s results. Through July 31, 2009, 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 condensed 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.

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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.

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 $16.3 million at July 31, 2009 and $17.3 million at January 31, 2009. Such amounts are included in prepaid expenses and other current assets and other assets, net.

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

During the six months ended July 31, 2009, we deferred $25.0 million of commission expenditures and we amortized $30.3 million to sales expense. During the same period a year ago, we deferred $26.9 million of commission expenditures and we amortized $28.6 million to sales expense. Deferred commissions on our condensed consolidated balance sheet totaled $51.8 million at July 31, 2009 and $57.1 million at January 31, 2009.

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 $42.5 million, or 7 percent of revenue, during the six months ended July 31, 2009. The requirement to expense stock-based awards will continue to materially reduce our reported results of operations. As of July 31, 2009, we had an aggregate of $212.1 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: $51.0 million during the remaining six months of fiscal 2010; $83.6 million during fiscal 2011; $56.9 million during fiscal 2012; $20.1 million during fiscal 2013; and $0.5 million during fiscal 2014. These amounts reflect only outstanding stock awards as of July 31, 2009 and assume no forfeiture activity. We expect to continue to issue share-based awards to our employees in future periods.

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 stock option exercise. 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, 2009, there were 2.1 million 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 stock option compensation and the valuation of deferred tax assets and liabilities and changes in tax laws.

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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,	
	2009	**2008**	**2009**	**2008**
Revenues:				
Subscription and support	$ 293,440	$ 239,720	$ 575,208	$ 465,061
Professional services and other	22,621	23,357	45,777	45,638
Total revenues	316,061	263,077	620,985	510,699
Cost of revenues:				
Subscription and support	38,971	30,668	75,999	59,378
Professional services and other	23,525	23,423	48,297	46,011
Total cost of revenues	62,496	54,091	124,296	105,389
Gross profit	253,565	208,986	496,689	405,310
Operating expenses:				
Research and development	31,103	24,033	62,687	43,800
Marketing and sales	146,214	130,774	284,481	253,478
General and administrative	46,759	38,081	89,909	76,513
Total operating expenses	224,076	192,888	437,077	373,791
Income from operations	29,489	16,098	59,612	31,519
Interest, net	7,454	6,708	11,776	13,430
Other expense	(1,072)	(840)	(701)	(1,603)
Income before provision for income taxes and noncontrolling interest	35,871	21,966	70,687	43,346
Provision for income taxes	(14,030)	(10,558)	(29,853)	(20,869)
Consolidated net income	21,841	11,408	40,834	22,477
Less: net income attributable to noncontrolling interest	(643)	(1,412)	(1,200)	(2,926)
Net income attributable to salesforce.com	$ 21,198	$ 9,996	$ 39,634	$ 19,551

	As of		
	July 31, 2009	**January 31, 2009**	**July 31, 2008**
Balance sheet data:			
Cash, cash equivalents and marketable securities	$ 1,030,406	$ 882,565	$ 823,417
Deferred revenue, current and noncurrent	549,010	594,026	479,546

	Three months ended July 31,		Six months ended July 31,	
	2009	**2008**	**2009**	**2008**
Revenues by geography:				
Americas	$ 226,008	$ 188,563	$ 446,658	$ 366,934
Europe	55,992	49,356	107,594	94,520

Asia Pacific	34,061	25,158	66,733	49,245
	$ 316,061	$ 263,077	$ 620,985	$ 510,699

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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,	
	2009	2008	2009	2008
Cost of revenues	$ 3,171	$ 2,657	$ 6,327	$ 5,332
Research and development	2,950	2,259	6,034	4,358
Marketing and sales	9,317	8,749	19,259	16,870
General and administrative	5,439	5,219	10,920	10,389

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,	
	2009	2008	2009	2008
Revenues:				
Subscription and support	93%	91%	93%	91%
Professional services and other	7	9	7	9
Total revenues	100	100	100	100
Cost of revenues:				
Subscription and support	12	12	12	12
Professional services and other	8	9	8	9
Total cost of revenues	20	21	20	21
Gross profit	80	79	80	79
Operating expenses:				
Research and development	10	9	10	8
Marketing and sales	46	50	46	50
General and administrative	15	14	14	15
Total operating expenses	71	73	70	73
Income from operations	9	6	10	6
Interest, net	2	2	2	2
Other expense			(1)	
Income before provision for income taxes and noncontrolling interest	11	8	11	8
Provision for income taxes	(4)	(3)	(5)	(3)
Consolidated net income	7	5	6	5
Less: Net income attributable to noncontrolling interest		(1)		(1)
Net income attributable to salesforce.com	7%	4%	6%	4%

	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008

Revenues by geography:				
Americas	72%	72%	72%	72%
Europe	18	19	17	19
Asia Pacific	10	9	11	9
	100%	100%	100%	100%

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	Three months ended July 31,		Six months ended July 31,	
	2009	2008	2009	2008
Stock-based expenses:				
Cost of revenues	1%	1%	1%	1%
Research and development	1	1	1	1
Marketing and sales	3	3	3	3
General and administrative	2	2	2	2

Three Months Ended July 31, 2009 and 2008

Revenues.

	Three Months Ended July 31,		Variance	
(In thousands)	**2009**	**2008**	**Dollars**	**Percent**
Subscription and support	$ 293,440	$ 239,720	$ 53,720	22%
Professional services and other	22,621	23,357	(736)	(3)%
Total revenues	$ 316,061	$ 263,077	$ 52,984	20%

Total revenues were $316.1 million for the three months ended July 31, 2009, compared to $263.1 million during the same period a year ago, an increase of $53.0 million, or 20 percent. Subscription and support revenues were $293.4 million, or 93 percent of total revenues, for the three months ended July 31, 2009, compared to $239.7 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 an increased number of new customers, additional paying subscriptions from existing customers, and customers who have upgraded. Professional services and other revenues were $22.6 million, or 7 percent of total revenues, for the three months ended July 31, 2009, compared to $23.4 million, or 9 percent of total revenues, for the same period a year ago. The decrease in professional services and other revenues was due primarily to reduced utilization of existing professional services staff caused by lower customer demand.

Revenues in Europe and Asia Pacific accounted for $90.1 million, or 28 percent of total revenues, for the three months ended July 31, 2009, compared to $74.5 million, or 28 percent of total revenues, during the same period a year ago, an increase of $15.6 million, or 21 percent. The increase in revenues outside of the Americas was the result of our efforts to expand internationally. The foreign currency impact compared to the same period a year ago in total revenues was a decrease of $4.9 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.

	Three Months Ended July 31,		Variance
(In thousands)	**2009**	**2008**	**Dollars**
Subscription and support	$ 38,971	$ 30,668	$ 8,303
Professional services and other	23,525	23,423	102
Total cost of revenues	$ 62,496	$ 54,091	$ 8,405
Percent of total revenues	20%	21%	

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Cost of revenues was $62.5 million, or 20 percent of total revenues, for three months ended July 31, 2009, compared to $54.1 million, or 21 percent of total revenues, for the same period a year ago, an increase of $8.4 million. The increase in absolute dollars was primarily due to an increase of $1.4 million in employee-related costs, an increase of $0.5 million in stock-based expenses, an increase of $1.7 million in service delivery costs, primarily due to our efforts in increasing data center capacity, an increase of $3.9 million in depreciation and amortization expenses, an increase of $0.8 million in outside subcontractor and other service costs and an increase of $0.1 million in allocated overhead. The cost of the additional professional services headcount resulted in the cost of professional services and other revenues to be in excess of the related revenue for the three months ended July 31, 2009 by $0.9 million. This reduction was the result of reduced utilization of existing professional services staff caused by lowered customer demand. We expect the cost of professional services and other revenue to continue to be in excess of the related revenue during fiscal 2010. We plan to continue to make this investment since our professional services are primarily designed to accelerate the adoption and expanded use by our customers of our enterprise cloud com