

SALESFORCE COM INC

Form 10-Q

November 20, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended October 31, 2015

OR

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

salesforce.com, inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

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)

94-3320693

(IRS Employer
Identification No.)

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

Indicate by check mark whether the Registrant has submitted electronically 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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

As of October 31, 2015, there were approximately 664.0 million shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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Condensed Consolidated Balance Sheets

(in thousands)

	October 31, 2015 (unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,223,318	\$ 908,117
Short-term marketable securities	134,687	87,312
Accounts receivable, net	1,060,726	1,905,506
Deferred commissions	208,133	225,386
Prepaid expenses and other current assets	311,909	280,554
Land and building improvements held for sale	0	143,197
Total current assets	2,938,773	3,550,072
Marketable securities, noncurrent	943,301	894,855
Property and equipment, net	1,742,142	1,125,866
Deferred commissions, noncurrent	148,147	162,796
Capitalized software, net	397,013	433,398
Goodwill	3,849,054	3,782,660
Strategic investments	496,809	175,774
Other assets, net	396,727	452,546
Restricted cash	0	115,015
Total assets	\$ 10,911,966	\$ 10,692,982
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 1,149,693	\$ 1,103,335
Deferred revenue	2,827,285	3,286,768
Total current liabilities	3,976,978	4,390,103
Convertible 0.25% senior notes, net	1,088,910	1,070,692
Loan assumed on 50 Fremont	198,851	0
Revolving credit facility	0	300,000
Deferred revenue, noncurrent	19,225	34,681
Other noncurrent liabilities	878,048	922,323
Total liabilities	6,162,012	6,717,799
Stockholders' equity:		
Common stock	664	651
Additional paid-in capital	5,410,377	4,604,485
Accumulated other comprehensive loss	(33,325	) (24,108
Accumulated deficit	(627,762	) (605,845
Total stockholders' equity	4,749,954	3,975,183
Total liabilities and stockholders' equity	\$ 10,911,966	\$ 10,692,982

See accompanying Notes.

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Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Revenues:				
Subscription and support	\$1,596,333	\$1,288,513	\$4,522,939	\$3,668,406
Professional services and other	115,634	95,142	334,879	260,572
Total revenues	1,711,967	1,383,655	4,857,818	3,928,978
Cost of revenues (1)(2):				
Subscription and support	303,045	238,746	870,023	666,611
Professional services and other	120,638	94,465	340,846	266,736
Total cost of revenues	423,683	333,211	1,210,869	933,347
Gross profit	1,288,284	1,050,444	3,646,949	2,995,631
Operating expenses (1)(2):				
Research and development	239,212	195,460	695,440	586,927
Marketing and sales	818,820	709,643	2,349,449	2,020,956
General and administrative	186,818	167,383	544,314	498,565
Operating lease termination resulting from purchase of 50 Fremont, net	0	0	(36,617)	) 0
Total operating expenses	1,244,850	1,072,486	3,552,586	3,106,448
Income (loss) from operations	43,434	(22,042)	) 94,363	(110,817)
Investment income	3,507	2,622	11,351	7,055
Interest expense	(18,249)	) (17,682)	) (53,020)	) (56,355)
Other expense (1)(3)	(7,093)	) (372)	) (6,064)	) (15,095)
Gain on sales of land and building improvements	21,792	15,625	21,792	15,625
Income (loss) before provisions for income taxes	43,391	(21,849)	) 68,422	(159,587)
Provisions for income taxes	(68,548)	) (17,075)	) (90,339)	) (37,336)
Net loss	\$(25,157)	) \$(38,924)	) \$(21,917)	) \$(196,923)
Basic net loss per share	\$(0.04)	) \$(0.06)	) \$(0.03)	) \$(0.32)
Diluted net loss per share	\$(0.04)	) \$(0.06)	) \$(0.03)	) \$(0.32)
Shares used in computing basic net loss per share	664,131	629,548	659,160	619,748
Shares used in computing diluted net loss per share	664,131	629,548	659,160	619,748

(1) Amounts include amortization of purchased intangibles from business combinations, as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Cost of revenues	\$20,296	\$20,351	\$60,825	\$70,294
Marketing and sales	18,966	15,095	57,995	44,708
Other non-operating expense	761	0	2,877	0

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

	Three Months Ended October 31,	Nine Months Ended October 31,
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	2015	2014	2015	2014
Cost of revenues	\$17,516	\$14,118	\$49,237	\$38,905
Research and development	31,534	26,868	96,508	87,264
Marketing and sales	69,561	72,892	211,819	210,510
General and administrative	25,706	25,582	77,092	76,284

(3) Amount includes approximately \$10.2 million loss on conversions of our convertible 0.75% senior notes due January 2015 recognized during the nine months ended October 31, 2014.

See accompanying Notes.

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Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net loss	\$(25,157	) \$(38,924	) \$(21,917	) \$(196,923
Other comprehensive loss, before tax and net of reclassification adjustments:				
Foreign currency translation and other losses	(1,173	) (13,692	) (8,419	) (15,876
Unrealized gains (loss) on investments	(2,873	) 1,278	337	(3,055
Other comprehensive loss, before tax	(4,046	) (12,414	) (8,082	) (18,931
Tax effect	(1,135	) 0	(1,135	) 0
Other comprehensive loss, net of tax	(5,181) (12,414) (9,217) (18,931
Comprehensive loss	\$(30,338) \$(51,338) \$(31,134) \$(215,854

See accompanying Notes.

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Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	Three Months Ended October		Nine Months Ended October	
	31,		31,	
	2015	2014	2015	2014
Operating activities:				
Net loss	\$(25,157	) \$(38,924	) \$(21,917	) \$(196,923
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	134,236	111,954	393,838	330,358
Amortization of debt discount and transaction costs	7,138	9,420	20,290	31,160
Gain on sales of land and building improvements	(21,792	) (15,625	) (21,792	) (15,625
50 Fremont lease termination, net	0	0	(36,617	) 0
Loss on conversions of convertible senior notes	0	1,340	0	10,230
Abandonment of leasehold improvement	7,086	0	7,086	0
Amortization of deferred commissions	78,934	65,371	232,768	186,526
Expenses related to employee stock plans	144,317	139,460	434,656	412,963
Excess tax benefits from employee stock plans	(44,607	) (1,221	) (48,698	) (3,447
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	15,262	39,792	853,014	566,306
Deferred commissions	(80,030	) (64,280	) (200,867	) (171,022
Prepaid expenses and other current assets and other assets	33,841	6,588	4,495	34,501
Accounts payable, accrued expenses and other liabilities	57,577	(1,933	) 12,276	(44,894
Deferred revenue	(188,898	) (129,431	) (475,357	) (298,642
Net cash provided by operating activities	117,907	122,511	1,153,175	841,491
Investing activities:				
Business combinations, net of cash acquired	(27,759	) 38,071	(58,680	) 38,071
Proceeds from land and building improvements held for sale	127,066	192,240	127,066	223,240
Purchase of 50 Fremont land and building	0	0	(425,376	) 0
Deposit for purchase of 50 Fremont land and building	0	(114,935	) 115,015	(114,935
Non-refundable amounts received for sale of land available for sale	0	0	6,284	0
Strategic investments	(30,330	) (12,852	) (325,226	) (47,905
Purchases of marketable securities	(200,001	) (154,560	) (543,422	) (690,024
Sales of marketable securities	91,153	46,908	414,259	197,293
Maturities of marketable securities	7,166	22,288	23,445	46,248
Capital expenditures	(80,041	) (73,426	) (216,011	) (205,100
Net cash used in investing activities	(112,746	) (56,266	) (882,646	) (553,112
Financing activities:				
Proceeds from revolving credit facility, net	0	297,325	0	297,325
Proceeds from employee stock plans	98,016	91,337	367,830	226,561
Excess tax benefits from employee stock plans	44,607	1,221	48,698	3,447

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Payments on convertible senior notes	0	(89,645) 0	(387,229)
Principal payments on capital lease obligations	(10,945) (10,345) (68,844) (61,280)
Payments on revolving credit facility and term loan	0	(270,000	) (300,000	) (285,000)
Net cash provided by (used in) financing activities	131,678	19,893	47,684	(206,176)
Effect of exchange rate changes	(2,872	) (14,538	) (3,012	) (17,513)
Net increase in cash and cash equivalents	133,967	71,600	315,201	64,690	
Cash and cash equivalents, beginning of period	1,089,351	774,725	908,117	781,635	
Cash and cash equivalents, end of period	\$1,223,318	\$846,325	\$1,223,318	\$846,325	

See accompanying Notes.

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Condensed Consolidated Statements of Cash Flows

Supplemental Cash Flow Disclosure

(in thousands)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	\$4,085	\$4,285	\$32,756	\$21,274
Income taxes, net of tax refunds	\$8,248	\$6,187	\$24,450	\$30,986
Non-cash financing and investing activities:				
Fixed assets acquired under capital leases	\$2,065	\$38,604	\$7,191	\$119,939
Building in progress - leased facility acquired under financing obligation	\$38,477	\$29,756	\$75,336	\$62,804
Fair value of loan assumed on 50 Fremont	\$0	\$0	\$198,751	\$0
Fair value of common stock issued as consideration for business combinations	\$0	\$338,033	\$0	\$338,033