SALESFORCE COM INC
Form 10-Q
November 28, 2018
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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 October 31, 2018
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.)

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

As of October 31, 2018, there were approximately 765 million shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
salesforce.com, inc.
Condensed Consolidated Balance Sheets
(in millions)
(unaudited)

	October 31, 2018	January 31, 2018 (as adjusted)
Assets		
Current assets:		
Cash and cash equivalents	$ 2,105	$ 2,543
Marketable securities	1,345	1,978
Accounts receivable, net	2,037	3,921
Costs capitalized to obtain revenue contracts, net	683	671
Prepaid expenses and other current assets	700	471
Total current assets	6,870	9,584
Property and equipment, net	1,998	1,947
Costs capitalized to obtain revenue contracts, noncurrent, net	983	1,105
Capitalized software, net	149	146
Strategic investments	1,251	677
Goodwill	12,848	7,314
Intangible assets acquired through business combinations, net	2,053	827
Other assets, net	436	384
Total assets	$ 26,588	$ 21,984
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 2,143	$ 2,047
Unearned revenue	5,376	6,995
Current portion of debt	503	1,025
Total current liabilities	8,022	10,067
Noncurrent debt	3,173	695
Other noncurrent liabilities	700	846
Total liabilities	11,895	11,608
Stockholders’ equity:		
Common stock	1	1
Additional paid-in capital	13,393	9,752
Accumulated other comprehensive loss	(74)	(12)
Retained earnings	1,373	635
Total stockholders’ equity	14,693	10,376
Total liabilities and stockholders’ equity	$ 26,588	$ 21,984

See accompanying Notes.

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

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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Revenues:				
Subscription and support	$3,168	$ 2,506	$9,038	$ 7,098
Professional services and other	224	195	641	577
Total revenues	3,392	2,701	9,679	7,675
Cost of revenues (1)(2):				
Subscription and support	676	528	1,887	1,485
Professional services and other	213	186	618	550
Total cost of revenues	889	714	2,505	2,035
Gross profit	2,503	1,987	7,174	5,640
Operating expenses (1)(2):				
Research and development	481	394	1,368	1,157
Marketing and sales	1,588	1,167	4,421	3,426
General and administrative	342	271	987	814
Total operating expenses	2,411	1,832	6,776	5,397
Income from operations	92	155	398	243
Investment income	13	10	41	24
Interest expense	(40)	(21)	(113)	(65)
Gains (losses) on strategic investments, net	63	1	417	(4)
Other income	0	1	1	1
Income before benefit from (provision for) income taxes	128	146	744	199
Benefit from (provision for) income taxes	(23)	(39)	4	(45)
Net income	$105	$ 107	$748	$ 154
Basic net income per share	$0.14	$ 0.15	$1.00	$ 0.22
Diluted net income per share	$0.13	$ 0.14	$0.97	$ 0.21
Shares used in computing basic net income per share	760	717	746	712
Shares used in computing diluted net income per share	785	738	772	730

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Cost of revenues	$62	$ 40	$153	$127
Marketing and sales	67	30	164	91

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

Three Months Ended October	Nine Months Ended October

	31,		31,	
	2018	2017	2018	2017
Cost of revenues	$42	$ 33	$119	$ 97
Research and development	81	66	228	197
Marketing and sales	180	118	474	357
General and administrative	48	34	133	108

See accompanying Notes.

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

3	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Net income	$105	$ 107 *	$748	$ 154 *
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation and other gains (losses)	(10)	7 *	(37)	37 *
Unrealized gains (losses) on marketable securities and strategic investments	(14)	(12)	(18)	51
Other comprehensive income (loss), net	(24)	(5)	(55)	88
Comprehensive income	$81	$ 102	$693	$ 242

*Prior period information has been adjusted for Topic 606.

See accompanying Notes.

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

	Nine Months Ended October 31, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2018, as adjusted	730	$ 1	$ 9,752	$ (12)	$ 635	$ 10,376
Reclassification of unrealized gains related to publicly traded investments and the related tax impact upon the prospective adoption of ASU 2016-01 (Note 1)	0	0	0	(7)	7	0
Cumulative-effect adjustment upon the modified retrospective adoption of ASU No. 2016-16 (Note 1)	0	0	0	0	(17)	(17)
Exercise of stock options and stock grants to board members for board services	8	0	335	0	0	335
Vested restricted stock units converted to shares	6	0	0	0	0	0
Shares issued related to business combinations, net	13	0	2,193	0	0	2,193
Shares issued under employee stock plans	2	0	155	0	0	155
Settlement of convertible notes and warrants	6	0	4	0	0	4
Stock-based expenses	0	0	954	0	0	954
Other comprehensive loss, net of tax	0	0	0	(55)	0	(55)
Net income	0	0	0	0	748	748
Balance at October 31, 2018	765	$ 1	$ 13,393	$ (74)	$ 1,373	$ 14,693

	Three Months Ended October 31, 2018					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at July 31, 2018	757	$ 1	$ 12,308	$ (50)	$ 1,268	$ 13,527
Exercise of stock options and stock grants to board members for board services	2	0	103	0	0	103
Vested restricted stock units converted to shares	2	0	0	0	0	0
Shares issued related to business combinations, net	4	0	631	0	0	631
Stock-based expenses	0	0	351	0	0	351
Other comprehensive loss, net of tax	0	0	0	(24)	0	(24)
Net income	0	0	0	0	105	105
Balance at October 31, 2018	765	$ 1	$ 13,393	$ (74)	$ 1,373	$ 14,693

See accompanying Notes.

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

	Nine Months Ended October 31, 2017					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at January 31, 2017, as adjusted	707	$ 1	$ 8,040	$ (86)	$ 275	$ 8,230
Exercise of stock options and stock grants to board members for board services	7	0	295	0	0	295
Vested restricted stock units converted to shares	6	0	0	0	0	0
Shares issued related to business combinations, net	0	0	6	0	0	6
Shares issued under employee stock plans	2	0	141	0	0	141
Temporary equity reclassification related to 0.25% convertible notes	0	0	(11)	0	0	(11)
Stock-based expenses	0	0	759	0	0	759
Other comprehensive income, net of tax	0	0	0	88 *	0	88 *
Net income	0	0	0	0	154 *	154 *
Balance at October 31, 2017, as adjusted	722	$ 1	$ 9,230	$ 2	$ 429	$ 9,662

	Three Months Ended October 31, 2017					
	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount				
Balance at July 31, 2017, as adjusted	719	$ 1	$ 8,889	$ 7	$ 322	$ 9,219
Exercise of stock options and stock grants to board members for board services	1	0	84	0	0	84
Vested restricted stock units converted to shares	2	0	0	0	0	0
Temporary equity reclassification related to 0.25% convertible notes	0	0	6	0	0	6
Stock-based expenses	0	0	251	0	0	251
Other comprehensive loss, net of tax	0	0	0	(5)*	0	(5)*
Net income	0	0	0	0	107 *	107 *
Balance at October 31, 2017, as adjusted	722	$ 1	$ 9,230	$ 2	$ 429	$ 9,662

*Prior period information has been adjusted for Topic 606.

See accompanying Notes.

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

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	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017 (as adjusted)	2018	2017 (as adjusted)
Operating activities:				
Net income	$105	$ 107	$748	$ 154
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	256	188	689	565
Amortization of debt discount and issuance costs	1	8	18	23
Amortization of costs capitalized to obtain revenue contracts, net	190	162	561	451
Expenses related to employee stock plans	351	251	954	759
(Gains) losses on strategic investments, net	(63)	(1)	(417)	4
Changes in assets and liabilities, net of business combinations:				
Accounts receivable, net	(48)	51	1,965	1,680
Costs capitalized to obtain revenue contracts, net	(186)	(238)	(450)	(556)
Prepaid expenses and other current assets and other assets	82	(33)	(4)	(212)
Accounts payable, accrued expenses and other liabilities	(34)	67	(311)	(27)
Unearned revenue	(511)	(437)	(1,686)	(1,155)
Net cash provided by operating activities	143	125	2,067	1,686
Investing activities:				
Business combinations, net of cash acquired	(130)	0	(5,115)	(20)
Purchases of strategic investments	(108)	(55)	(292)	(113)
Sales of strategic investments	83	41	89	56
Purchases of marketable securities	(343)	(234)	(634)	(1,434)
Sales of marketable securities	79	194	1,352	437
Maturities of marketable securities	10	30	98	43
Capital expenditures	(136)	(111)	(428)	(396)
Net cash used in investing activities	(545)	(135)	(4,930)	(1,427)
Financing activities:				
Proceeds from issuance of debt, net	0	0	2,966	0
Proceeds from employee stock plans	185	142	568	485
Principal payments on capital lease obligations	(2)	(8)	(110)	(83)
Repayments of debt	(1)	0	(1,028)	(200)
Net cash provided by financing activities	182	134	2,396	202
Effect of exchange rate changes	6	(1)	29	4
Net increase (decrease) in cash and cash equivalents	(214)	123	(438)	465
Cash and cash equivalents, beginning of period	2,319	1,949	2,543	1,607
Cash and cash equivalents, end of period	$2,105	$ 2,072	$2,105	$ 2,072

See accompanying Notes.

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Supplemental cash flow disclosure:				
Cash paid during the period for:				
Interest	$54	$ 7	$83	$ 34
Income taxes, net of tax refunds	$25	$ 15	$62	$ 42
Non-cash investing and financing activities:				
Fair value of equity awards assumed	$93	$ 0	$480	$ 0
Fair value of common stock issued as consideration for business combinations	$537	$ 0	$1,715	$ 6

See accompanying Notes.

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salesforce.com, inc.
Notes to Condensed Consolidated Financial Statements
1. Summary of Business and Significant Accounting Policies
Description of Business
Salesforce.com, inc. (the "Company") is a leading provider of enterprise software, delivered through the cloud, with a focus on customer relationship management, or CRM. The Company introduced its first CRM solution in 2000, and has since expanded its service offerings into new areas and industries with new editions, features and platform capabilities.
The Company's core mission is to empower its customers to connect with their customers in entirely new ways through cloud, mobile, social, Internet of Things (“IoT”) and artificial intelligence technologies.
The Company's Customer Success Platform is a comprehensive portfolio of service offerings providing sales force automation, customer service and support, marketing automation, digital commerce, integration solutions, community management, industry-specific solutions, analytics, application development, IoT integration, collaborative productivity tools, an enterprise cloud marketplace which the Company refers to as the AppExchange, and its professional services.
Fiscal Year
The Company’s fiscal year ends on January 31. References to fiscal 2019, for example, refer to the fiscal year ending January 31, 2019.
Basis of Presentation
The accompanying condensed consolidated balance sheets as of October 31, 2018 and January 31, 2018 and the condensed consolidated statements of operations, condensed consolidated statements of comprehensive income, condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flows for the three and nine months ended October 31, 2018 and 2017, respectively, are unaudited.
These financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of the Company’s management, the unaudited condensed consolidated financial statements include all adjustments necessary for the fair presentation of the Company’s balance sheets as of October 31, 2018 and January 31, 2018, and its results of operations, including its comprehensive income, stockholders' equity and its cash flows for the three and nine months ended October 31, 2018 and 2017. All adjustments are of a normal recurring nature. The results for the three and nine months ended October 31, 2018 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2019.
These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2018, filed with the Securities and Exchange Commission (the “SEC”) on March 9, 2018.
The Company has adjusted its condensed consolidated financial statements from amounts previously reported due to the adoption of Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) as discussed below. In addition, the Company prospectively adopted Accounting Standards Update No. 2016-01, "Financial Instrument-Overall (Subtopic 825-10)" ("ASU 2016-01") and Accounting Standards Update No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"), as discussed below.
Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in the Company’s condensed consolidated financial statements and notes thereto.

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

- the standalone selling price (SSP) of performance obligations for contracts with multiple performance obligations;
- the estimate of variable consideration as part of the adoption of ASU 2014-09;
- the fair value of assets acquired and liabilities assumed for business combinations;
- the recognition, measurement and valuation of current and deferred income taxes;
- the average period of benefit associated with costs capitalized to obtain revenue contracts;
- the fair value of certain stock awards issued;
- the useful lives of intangible assets; and
- the valuation of privately-held strategic investments.

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

Principles of Consolidation

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

Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and assess performance. Over the past few years, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments of the enterprise cloud computing market. While the Company has offerings in multiple enterprise cloud computing market segments, including as a result of the Company's acquisitions, the Company’s business operates in one operating segment because the Company's offerings operate on its single Customer Success Platform and most of the Company's products are deployed in an identical way, and the Company’s chief operating decision makers evaluate the Company’s financial information and resources and assesses the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the condensed consolidated financial statements.

In August 2018, the Company moved to a co-chief executive officer model with the promotion of the Company's vice chairman and chief operating officer. In the third quarter of fiscal 2019, the Company determined that both co-chief executive officers also serve as chief operating decision makers for the purposes of segment reporting. Despite the change in the chief operating decision maker, the Company determined no change to segment reporting was necessary as there was no change in the components of the Company for which separate financial information is regularly evaluated.

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 accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for its doubtful accounts receivable. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts. Receivables are written-off and charged against the recorded allowance when the Company has exhausted collection efforts without success.

No single customer accounted for more than five percent of accounts receivable at October 31, 2018 and January 31, 2018. No single customer accounted for five percent or more of total revenue during the nine months ended October 31, 2018 and 2017. As of October 31, 2018 and January 31, 2018, assets located outside the Americas were 11 percent and 17 percent of total assets, respectively. As of October 31, 2018 and January 31, 2018, assets located in the United States were 87 percent and 81 percent of total assets, respectively.

Revenue Recognition

Adoption of Topic 606

Effective at the start of fiscal 2019, the Company adopted the provisions and expanded disclosure requirements described in ASU 2014-09 also referred to as Topic 606. The Company adopted the standard using the full

retrospective method. Accordingly, the results for the prior comparable period were adjusted to conform to the current period measurement and recognition of results.

The impact of Topic 606 on reported revenue results was not material. Topic 606, however, modified the Company’s revenue recognition policy in the following ways:

•Removal of the limitation on contingent revenue, which can result in the subscription and support revenue for certain multi-year customer contracts being recognized earlier in the duration of the contract term;

•More allocation of subscription and support revenues across the Company’s cloud service offerings and to professional services revenue; and

•Inclusion of an estimate of variable consideration, such as overage fees, in the total transaction price, which results in the estimated fees being recognized ratably over the contract term, further resulting in the recognition of subscription and support revenues before the actual variable consideration occurs.

The Company used the following transitional practical expedients in the adoption of Topic 606:

•The Company has not disclosed the remaining performance obligation (formerly, remaining transaction price) for all of the reporting periods prior to the first quarter of fiscal 2019; and

•Contracts modified before fiscal 2017 were reflected using the retrospective method.

Additionally, as part of its business strategy, the Company periodically makes acquisitions of complementary businesses, services and technology. These acquired businesses may have customer arrangements that include the delivery of an on-premise software element combined with a software-as-a-service element. This was the case with the Company's acquisition of MuleSoft, Inc. (“MuleSoft”) in May 2018. The Company has to apply significant judgment to determine the appropriate revenue recognition policy for such products and services since Topic 606 eliminated the provision that service revenue accounting was appropriate when the relative selling price of one or more deliverables in a multiple element solution arrangement could not be determined.

Revenue Recognition Policy

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

With the adoption of Topic 606, revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. If the consideration promised in a contract includes a variable amount, for example, overage fees, contingent fees or service level penalties, the Company includes an estimate of the amount it expects to receive for the total transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur.

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

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

•Identification of the performance obligations in the contract;

•Determination of the transaction price;

•Allocation of the transaction price to the performance obligations in the contract; and

•Recognition of revenue when or as the Company satisfies the performance obligations.

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

Subscription and Support Revenues

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

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

Since the May 2018 acquisition of MuleSoft, subscription and support revenues also includes software licenses. These licenses for on-premises software provide the customer with a right to use the software as it exists when made available. Customers purchase these licenses through a subscription. Revenues from distinct licenses are generally recognized upfront when the software is made available to the customer. In cases where the Company allocates revenue to software updates and support, primarily because the updates are provided at no additional charge, revenue is recognized as the updates are provided, which is generally ratably over the contract term.

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The Company typically invoices its customers annually in advance upon execution of the contract or subsequent renewals. Amounts that have been invoiced are recorded in accounts receivable and in unearned revenue or revenue, depending on whether transfer of control to customers has occurred.

Professional Services and Other Revenues

The Company’s professional services contracts are either on a time and materials, fixed fee or subscription basis. These revenues are recognized as the services are rendered for time and materials contracts, when the milestones are achieved and accepted by the customer or on a proportional performance basis for fixed price contracts and ratably over the contract term or on a proportional performance basis for subscription professional services contracts. The milestone method for revenue recognition is used when there is substantive uncertainty at the date the contract is entered into whether the milestone will be achieved. Training revenues are recognized as the services are performed.

Significant Judgments - Contracts with Multiple Performance Obligations

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

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

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

The Company determines SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company’s discounting practices, the size and volume of the Company’s transactions, the customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical sales and contract prices. The determination of SSP is made through consultation with and approval by the Company’s management, taking into consideration the go-to-market strategy. As the Company’s go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

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

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

Costs Capitalized to Obtain Revenue Contracts

As part of its adoption of ASU 2014-09, the Company capitalizes incremental costs of obtaining a non-cancelable subscription and support revenue contract. The provisions of ASU 2014-09 are significantly different than the Company's previous accounting for deferred commissions. The new guidance results in the capitalization of significantly more costs and longer amortization lives. Under the prior accounting guidance, the Company only capitalized sales commissions that had a direct relationship to a specific new revenue contract and amortized the capitalized amounts over the initial contract period, which was typically 12 to 36 months.

Under the new accounting, the capitalized amounts consist primarily of sales commissions paid to the Company’s direct sales force. Capitalized amounts also include (1) amounts paid to employees other than the direct sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired, (2)

commissions paid to employees upon renewals of subscription and support contracts, (3) the associated payroll taxes and fringe benefit costs associated with the payments to the Company's employees, and to a lesser extent (4) success fees paid to partners in emerging markets where the Company has a limited presence.

Costs capitalized related to new revenue contracts are amortized on a straight-line basis over four years, which, although longer than the typical initial contract period, reflects the average period of benefit, including expected contract renewals. In arriving at this average period of benefit, the Company evaluated both qualitative and quantitative factors which included the

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estimated life cycles of its offerings and its customer attrition. Additionally, the Company amortizes capitalized costs for renewals and success fees paid to partners over two years.

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

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

During the nine months ended October 31, 2018, the Company capitalized $450 million of costs to obtain revenue contracts and amortized $561 million to marketing and sales expense. During the same period a year ago, the Company capitalized $556 million of costs to obtain revenue contracts and amortized $451 million to marketing and sales expense. Costs capitalized to obtain a revenue contract, net on the Company's condensed consolidated balance sheets totaled $1.7 billion at October 31, 2018 and $1.8 billion at January 31, 2018.

Cash and Cash Equivalents

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

Marketable Securities

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

Strategic Investments

The Company holds strategic investments in publicly held equity securities and privately held debt and equity securities in which the Company does not have a controlling interest or significant influence. Publicly held equity securities are measured using quoted prices in their respective active markets with changes recorded through gains (losses) on strategic investments, net on the condensed consolidated statement of operations. Privately held equity securities without a readily determinable fair value are recorded at cost and adjusted for impairments and observable price changes with a same or similar security from the same issuer and are recorded through gains (losses) on strategic investments, net on the condensed consolidated statement of operations. Privately held debt securities are recorded at fair value with changes in fair value recorded through accumulated other comprehensive loss on the condensed consolidated balance sheet. If, based on the terms of these publicly traded and privately held securities, the Company determines that the Company exercises significant influence on the entity to which these securities relate, the Company will apply the equity method of accounting for such investments.

Privately held debt and equity securities are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity. The carrying value is not adjusted for the Company's privately held equity securities if there are no observable price changes in a same or similar security from the same issuer or if there are no identified events or changes in circumstances that may indicate impairment, as discussed below. In determining the estimated fair value of its strategic investments in privately held companies, the Company utilizes the most recent data available to the Company. Valuations of privately held companies are inherently complex due to the lack of readily available market data. In addition, the determination of whether an orderly transaction is for a same or similar investment requires

significant management judgment including: the rights and obligations of the investments, the extent to which those differences would affect the fair values of those investments, and the impact of any differences based on the stage of operational development of the investee.

The Company assesses its privately held debt and equity securities strategic investment portfolio quarterly for impairment. The Company's impairment analysis encompasses an assessment of the severity and duration of the impairment and qualitative and quantitative analysis of other key factors including: the investee's financial metrics, the investee's products

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and technologies meeting or exceeding predefined milestones, market acceptance of the product or technology, other competitive products or technology in the market, general market conditions, management and governance structure of the investee, the investee's liquidity, debt ratios and the rate at which the investee is using its cash. If the investment is considered to be impaired, the Company will record the investment at fair value by recognizing an impairment through the condensed consolidated statement of operations and establishing a new carrying value for the investment.

Derivative Financial Instruments

The Company enters into foreign currency derivative contracts with financial institutions to reduce foreign exchange risk. The Company uses forward currency derivative contracts to minimize the Company's exposure to balances primarily denominated in the Euro, British Pound Sterling, Japanese Yen, Canadian Dollar and Australian Dollar. The Company's foreign currency derivative contracts, which are not designated as hedging instruments, are used to reduce the exchange rate risk associated primarily with intercompany receivables and payables. The Company's derivative financial instruments program is not designated for trading or speculative purposes. As of October 31, 2018 and January 31, 2018, the outstanding foreign currency derivative contracts were recorded at fair value on the condensed consolidated balance sheets.

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

Fair Value Measurement

The Company measures its cash and cash equivalents, marketable securities and foreign currency derivative contracts at fair value. The additional disclosures regarding the Company's fair value measurements are included in Note 5 "Fair Value Measurement." In addition, the Company measures its publicly held equity securities at fair value. The additional disclosure regarding the Company's fair value measurements of its strategic investments are included in Note 3 "Investments."

Property and Equipment

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

Computers, equipment and software	3 to 9 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of the estimated lease term or 10 years
Building and structural components	Average weighted useful life of 32 years
Building - leased facility	27 years
Building improvements	10 years

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

Capitalized Software Costs

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

Intangible Assets acquired through Business Combinations

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

Impairment Assessment

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

The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during its fourth quarter of each fiscal year or more often if and when circumstances indicate that goodwill may not be recoverable. There were no material impairments of capitalized software, intangible assets, long-lived assets or goodwill during the nine months ended October 31, 2018 and 2017.

Business Combinations

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

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

Leases and Asset Retirement Obligations

The Company categorizes leases at their inception as either operating or capital leases. In certain lease agreements, the Company may receive rent holidays and other incentives. The Company recognizes lease costs on a straight-line basis once control of the space is achieved, without regard to deferred payment terms such as rent holidays that defer the commencement date of required payments. Additionally, incentives received are treated as a reduction of costs over the term of the agreement.

The Company establishes assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are depreciated over the lease period to operating expense.

In the event the Company is the deemed owner for accounting purposes during construction, the Company records assets and liabilities for the estimated construction costs incurred under build-to-suit lease arrangements to the extent it is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease.

The Company additionally has entered into subleases for unoccupied leased office space. To the extent there are losses associated with the sublease, they are recognized in the period the sublease is executed. Gains are recognized over the sublease life. Any sublease payments received in excess of the straight-line rent payments for the sublease are recorded as an offset to rent expense.

Stock-Based Expense

The Company recognizes stock-based expenses related to stock options and restricted stock awards on a straight-line basis, net of estimated forfeitures, over the requisite service period of the awards, which is generally the vesting term of four years.

The Company recognizes stock-based expenses related to shares issued pursuant to its Amended and Restated 2004 Employee Stock Purchase Plan ("ESPP" or "2004 Employee Stock Purchase Plan") on a straight-line basis over the offering period, which is 12 months. The ESPP allows employees to purchase shares of the Company's common stock at a 15 percent discount and also allows employees to reduce their percentage election once during a six month purchase period (December 15 and June 15 of each fiscal year), but not increase that election until the next one-year offering period. The ESPP also includes a re-set provision for the purchase price if the stock price on the purchase date is less than the stock price on the offering date.

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

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the condensed consolidated statements of operations in the period that includes the enactment date.
The Company’s tax positions are subject to income tax audits by multiple tax jurisdictions throughout the world. The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, solely based on its technical merits. The tax benefit recognized is measured as the largest amount of benefit which is greater than 50 percent likely to be realized upon settlement with the taxing authority. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in the income tax provision.
Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more likely than not expected to be realized based on the weighting of positive and negative evidence. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the applicable tax law. The Company regularly reviews the deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. The Company’s judgments regarding future profitability may change due to many factors, including future market conditions and the ability to successfully execute its business plans. Should there be a change in the ability to recover deferred tax assets, the tax provision would increase or decrease in the period in which the assessment is changed.
In December 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted into law, significantly changing income tax law that affects U.S corporations. Key changes included a corporate tax rate reduction from 35 percent to 21 percent effective January 1, 2018, expensing of certain qualified property, significant changes to the U.S international tax system such as a one-time transition tax on accumulated foreign earnings, and how foreign earnings are subject to U.S. tax. The Company was required to recognize the effects of the tax law changes in the period of enactment, including the determination of the transition tax and the re-measurement of deferred taxes as well as to re-assess the realizability of the deferred tax assets. Subsequent to the enactment of the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows companies to record provisional amounts related to the effects of the Tax Act during a measurement period not to extend beyond one year from the enactment date. Due to the timing of the Tax Act and additional guidance and interpretations that may be issued by the U.S. Treasury Department, the Internal Revenue Service ("IRS") and other standard-setting bodies in the future, the Company has not completed its analysis of the income tax effects of the Tax Act. The provisional estimates will be adjusted during the measurement period defined under SAB 118, based upon the Company's ongoing analysis of its data and tax positions along with new guidance from regulators and interpretations of the law.

Foreign Currency Translation

The functional currency of the Company’s major foreign subsidiaries is generally the local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are recorded as a separate component on the condensed consolidated statement of comprehensive income. Foreign currency transaction gains

and losses are included in other income in the condensed consolidated statement of operations for the period. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average exchange rate during the period. Equity transactions are translated using historical exchange rates.

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Warranties and Indemnification

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

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

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

New Accounting Pronouncements Adopted in Fiscal 2019

Topic 606

In May 2014, the FASB issued ASU 2014-09, which in addition to replacing the existing revenue recognition guidance, provides guidance on the recognition of costs related to obtaining customer contracts. The adoption was material to the Company’s reported operating results and balance sheet for fiscal 2018 and 2017, as it requires additional types of costs to be capitalized and amortized over a longer period. The Company also recorded the related income tax effects, which did not have a material impact due to the Company's valuation allowance. The adoption had no impact to the Company’s operating cash flow.

The adoption of ASU 2014-09 impacted the Company's previously reported results as follows (in millions, except per share data):

	Three Months Ended October 31, 2017			Nine Months Ended October 31, 2017		
	As reported	Change	As adjusted	As reported	Change	As adjusted
Total revenues	$2,680	$21	$2,701	$7,629	$46	$7,675
Marketing and sales	1,185	(18)	1,167	3,465	(39)	3,426
Benefit from (provision for) income taxes	(55)	16	(39)	(54)	9	(45)
Net income	$51	$56	$107	$60	$94	$154
Diluted net income per share	$0.07	$0.07	$0.14	$0.08	$0.13	$0.21

The number of shares utilized to calculate the three and nine months ended October 31, 2017 diluted net income per share was 738 million and 730 million, respectively.

The adoption of ASU 2014-09 impacted the Company's previously reported results as of January 31, 2018 as follows (in millions):

	As reported	Change	As adjusted
Accounts receivable, net	$ 3,918	$ 3	$ 3,921
Costs capitalized to obtain revenue contracts, net	461	210	671
Prepaid expenses and other current assets	390	81	471
Costs capitalized to obtain revenue contracts, noncurrent, net	413	692	1,105
Other assets, net	396	(12)	384
Accounts payable, accrued expenses and other liabilities	2,010	37	2,047
Unearned revenue	7,095	(100)	6,995
Other noncurrent liabilities	796	50	846

Stockholders’ equity	9,389	987	10,376

ASU 2016-01
In January 2016, the FASB issued ASU 2016-01, which requires entities to measure equity instruments at fair value and recognize any changes in fair value within the statement of operations. The Company adopted ASU 2016-01 in the first quarter of fiscal 2019 on a prospective basis for privately held equity securities and a modified retrospective basis for publicly held equity investments. Upon adoption of ASU 2016-01, the Company reclassified approximately $13 million of unrealized gains related to its publicly traded equity investments and approximately $6 million reflecting the tax impact, from accumulated other comprehensive loss on the balance sheet to retained earnings. For the nine months ended October 31, 2018, the Company recorded net unrealized gains of $348 million, which excludes recognized gains on the sale of investments of $69 million, which were recorded in the condensed consolidated statement of operations, and the Company anticipates additional volatility to the Company's statements of operations in future periods, due to changes in market prices of the Company's investments in publicly held equity investments and the valuation and timing of observable price changes and impairments of its investments in privately held securities.
ASU 2016-16
In October 2016, the FASB issued ASU 2016-16, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs. The Company adopted the standard in the first quarter of fiscal 2019 using the modified retrospective transition method and reclassified a cumulative-effect adjustment to reduce retained earnings as of the effective date of approximately $17 million.
SEC Disclosure Update and Simplification
In August 2018, the SEC issued Securities Act Release No. 33-10532 that amends certain disclosure requirements, including extending to interim periods the annual requirement to disclose changes in stockholders' equity. Under the new requirements, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for the current and comparative year-to-date interim periods, with subtotals for each interim period. The final rule was effective in November 2018. The Company has adopted the final rule as of October 31, 2018 and has included a reconciliation of the changes in stockholders' equity in this Form 10-Q.
Accounting Pronouncements Pending Adoption
In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires lessees to record most leases on their balance sheets but recognize the expenses on their statements of operations in a manner similar to current accounting rules. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. ASU 2016-02 will be effective as of the beginning of fiscal 2020, including interim periods within that reporting period. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements" ("ASU 2018-11"), which allows for the adoption of ASU 2016-02 to be applied at the beginning of the year of adoption, as opposed to at the beginning of the earliest year presented in the financial statements. The Company plans to adopt the transitional provisions allowed under ASU 2018-11. The Company continues to implement changes to its systems, processes and controls, in conjunction with its review of existing lease agreements. The Company expects its leases designated as operating leases in Note 14, "Commitments," will be reported on the consolidated balance sheets upon adoption, which will materially increase its total assets and liabilities. The Company does not expect the adoption of ASU 2016-02 to have a material impact to its consolidated statements of operations or to have any impact on its total cash flows from operating, investing or financing activities.
In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company is currently in the process of evaluating the impact of the adoption of ASU 2016-13 on its consolidated financial statements in order to adopt the new standard in the first quarter of fiscal 2021.

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 (ASU 2018-15) "Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40) - Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company does not expect the adoption of ASU 2018-15 to be material.

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Reclassifications

Certain reclassifications to fiscal 2018 balances were made to conform to the current period presentation in the condensed consolidated balance sheets, condensed consolidated statements of operations and condensed consolidated statements of cash flows. These reclassifications include other noncurrent liabilities, temporary equity, other income, gains (losses) on strategic investments, net, accounts payable, accrued expenses and other liabilities and income taxes payable and prepaid expenses and other current assets and other assets.

2. Revenues

Disaggregation of Revenue

Subscription and Support Revenue by the Company's core service offerings

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Sales Cloud	$1,020	$921	$2,989	$2,642
Service Cloud	917	738	2,657	2,094
Salesforce Platform and Other	742	491	2,029	1,378
Marketing and Commerce Cloud	489	356	1,363	984
	$3,168	$2,506	$9,038	$7,098

Total Revenue by Geographic Locations

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2018	2017	2018	2017
Americas	$2,425	$1,942	$6,864	$5,575
Europe	641	499	1,876	1,374
Asia Pacific	326	260	939	726
	$3,392	$2,701	$9,679	$7,675

Revenues by geography are determined based on the region of the Company's contracting entity, which may be different than the region of the customer. Americas revenue attributed to the United States was approximately 96 percent during the three and nine months ended October 31, 2018 and 2017, respectively. No other country represented more than ten percent of total revenue during the three and nine months ended October 31, 2018 and 2017.

Contract Balances

As described in Note 1, subscription and support revenue is generally recognized ratably over the contract term beginning on the commencement date of each contract. Under Topic 606 the timing and amount of revenue recognition may differ in certain situations from the revenue recognized under previous accounting guidance, which included a contingent revenue rule that limited subscription and support revenue to the customer invoice amount for the period of service (collectively billings). Under Topic 606, the Company records a contract asset when revenue recognized on a contract exceeds the billings. Contract assets were $239 million at October 31, 2018, which includes the acquired contract asset balance from the May 2018 MuleSoft acquisition. The contract assets were $81 million at January 31, 2018.

Unearned Revenue

Topic 606 introduced the concept of unearned revenue, which is substantially similar to deferred revenue under previous accounting guidance, except for the removal of the limitation on contingent revenue. The unearned revenue balance does not represent the total contract value of annual or multi-year, non-cancelable subscription agreements. Unearned revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services, including software licenses, described above and is recognized as revenue when transfer of

control to customers has occurred. The Company generally invoices customers in annual installments. The unearned revenue balance is influenced by several factors, including seasonality, the compounding effects of renewals, invoice duration, invoice timing, dollar size and new business linearity within the quarter.

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The changes in unearned revenue were as follows (in millions):

	Three Months Ended October 31, 2018	Three Months Ended July 31, 2018	Three Months Ended April 30, 2018
Unearned revenue, beginning of period	$5,883	$6,201	$6,995
Billings and other*	2,870	2,875	2,211
Contribution from contract asset	11	31	(6)
Revenue recognized over time	(3,171)	(3,052)	(2,866)
Revenue recognized at a point in time	(221)	(229)	(140)
Unearned revenue from business combinations	4	57	7
Unearned revenue, end of period	$5,376	$5,883	$6,201

*Other includes, for example, the impact of foreign currency translation

Revenue recognized over time is generally billed in advance and includes cloud services, the related support and fixed fee professional services. The majority of revenue recognized in each quarter for these services is from the beginning of period unearned revenue balance. Revenue recognized at a point in time includes professional services billed on a time and materials basis, training classes and the portion of software license arrangements allocated to the on-premise performance obligation; these items are primarily billed, delivered and recognized within the same reporting period.

Remaining Performance Obligation (Formerly "Remaining Transaction Price")

Topic 606 also introduced the concept of remaining transaction price, which is different than unbilled deferred revenue under previous accounting guidance. Transaction price allocated to the remaining performance obligations represents contracted revenue that has not yet been recognized, which includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. Transaction price allocated to the remaining performance obligation is influenced by several factors, including seasonality, the timing of renewals, average contract terms and foreign currency exchange rates. Unbilled portions of the remaining performance obligations denominated in foreign currencies are revalued each period based on the period end exchange rates.

The Company applied the practical expedient in accordance with Topic 606 to exclude amounts related to performance obligations that are billed and recognized as they are delivered. This primarily consists of professional services contracts that are on a time-and-material basis.

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

	Current	Noncurrent	Total
As of October 31, 2018*	$ 10.0	$ 11.2	$21.2

*Includes $300 million of acquired Remaining Performance Obligation from the May 2018 MuleSoft acquisition.

3. Investments

Marketable Securities

At October 31, 2018, marketable securities consisted of the following (in millions):

Investments classified as Marketable Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and obligations	$ 809	$ 0	$ (10)	$ 799
U.S. treasury securities	90	0	(2)	88
Mortgage backed obligations	86	0	(1)	85
Asset backed securities	190	0	(2)	188
Municipal securities	76	0	(1)	75
Foreign government obligations	51	0	(1)	50
U.S. agency obligations	4	0	0	4
Covered bonds				